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LETTER TO THE SHAREHOLDER

For Acquirente Unico, 2016 was a year of particular importance. It could be said that never before has it been so clear that the company's name no longer represents its complex role. At the same time that the duration of its responsibilities in terms of procuring energy was under discussion (due to the debate still in course regarding the surpassing of Enhanced Protection, found in the draft "Competition" Law), the other activities that Acquirente Unico performs to support both operators and consumers gained even more visibility.

It is clear that in terms of invoices and therefore also in terms of their impact on the Company's overall balance sheet, energy purchases continue to play a central role. However, it is equally clear that the downward trend in transacted volumes is continuing (-6.4% in the last year, -17.5% with respect to 2013) and that, regardless of the date when the Enhanced Protection service will be surpassed (at present, this seems likely to occur around mid-2019), the procurement function is already transforming. The new face that this public procurement tool will wear is still impossible to guess, but it is interesting to note that, even just at the level of public debate, there is interest in the possibility of "reconverting" the role it has played up to the present. Hypotheses range from the supplier of last resort - envisaged in the recent directive proposal relative to the internal electricity market - to the procurer for specific categories of subjects. In any case, in 2016 the purchase of energy saw a change that we could define as historic, at least in terms of the Company's existence, given that following the new provisions on Market Coupling, the schedules for the purchase of energy and the invoicing and collection from enhanced protection operators were no longer aligned. This had a significant impact on the company, which not only had to modify its own forecasting methods (also in relation to the new purchase model determined by resolution 633/2016/R/eel issued by the Authority for Electricity, Gas and Water Systems), but also because for the first time in its existence it had to make use of financial instruments to deal with this misalignment. This was a process which was fully realised in 2017, but the foundations were laid in 2016.

This challenge was handled brilliantly, but above all we want to emphasise the creation of significant synergy with the work performed by OCSIT. The Italian Central Stockholding Entity (OCSIT), assigned to AU to allow it to benefit from synergies with the work already in course, in fact in turn provided services to the "ancestral" activity, thanks to the financial skills developed specifically in response to the needs to acquire not only physical oil products, but the capital needed to make these purchases. Therefore, Acquirente Unico is now becoming a company with its own skills and experience in the use of financial instruments, although obviously within the limits of our specific requirements. This is a complex operation, which requires significant cooperation with the numerous institutions involved. The long research done with regards to the issue began in 2016 and we hope that the result is positive, above all due to the savings that could be achieved and that will increase the advantages for those using the OCSIT, whether operators or, further down the line, final consumers. Again with reference to OCSIT, we want to note that 2016 saw an important milestone passed, with the purchase of an additional three stock days, for a total of six, equal to 628,999 tons of products, achieved more rapidly than forecast in the business plan.

AU's other activities also demonstrated, during the year just ended, the central role it now plays in the energy sector. The Energy Consumer Help Desk, following implementation of directive 2013/11/EU on Alternative Dispute Resolution in our national laws, saw the adaptation of a significant part of our activities. Its role is no longer simply to support and inform consumers relative to problems in their relationships with electricity or gas suppliers, but to act directly through Settlement activities (an attempt at settlement is obligatory before proceeding to the ordinary courts). This involved significant training of staff, who took on this new challenge

with enthusiasm. In addition, it was well-aligned with employees' own education, with a sizeable portion consisting of attorneys and those with a degree in law. Today, with the Settlement activities, AU contributes to the proper functioning of the market, guaranteeing a method to resolve disputes between operators and customers supported by those already available through other entities, with the added value of being online, free and provided directly under the auspices of the Authority for Electricity.

The Help Desk then acquired greater efficiency thanks to another internal synergy, this one with the Integrated Information System, which the Help Desk can access directly to effectively and rapidly provide support and information to consumers.

In 2016, the Integrated Information System saw substantial achievement of the mission for which it was established. For example, as of this year, through the activity of our system execution of the switching process occurs within three weeks, in contrast to the previous three months, in compliance with European regulations. In addition, electricity measurement consumption data was also extended to points not dealt with on an hourly basis. In the gas sector, management of switching and flows for settlement began.

In addition, the IIS contributes to the proper functioning of Similar Protection. As is known, this particular offer, intended by the Authority for the sector to function as a sort of "gym", allows a series of selected and constantly monitored vendors to offer consumers free market offers under "controlled" conditions, which allow consumers to approach this market without complications and in a simplified manner.

Similar Protection, which depends upon the Integrated Information System, constitutes further demonstration of the fact that the year just ended was, for the IIS, not just a year in which important objectives were met, but also a year in which a vast number of new objectives were identified to be achieved in coming years, with activities already begun over the past months. Some of these are already clear - acquisition of hourly readings for electricity delivery points, associated with the installation of second generation meters, as well as implementation of the switching process in the gas sector. Others are still at the planning level. To name just one, for which institutional interest was already indicated at the end of 2016—the possibility of adapting current energy bonus disbursement methods (universally recognised as necessary but complex and probably creating disincentives in terms of the use of the bonus itself) to an entirely different and substantially automatic scheme, in which the bonus is disbursed based on compliance with certain pre-set parameters.

In essence, this would involve taking advantage of the complex but significant experience achieved, again in 2016, relative to the fee for private TV use paid through a charge inserted in electricity invoices. In this case, the synergy with the Revenue Agency led to a mechanism that permitted identification of subjects required to pay the fee and insertion of the proper amounts in the bills, with a minimum number of problems (with respect to the extremely high number of subjects involved and specific types to be considered), no negative impact on retail market trends and an extremely high return in terms of efficiency, given that the new method allowed for collection of a good 256 million more than in the previous year.

All of these results could never have been achieved with substantial efforts from all of our staff. The women and men of AU faced the changes of 2016 with notable determination and willingness to take on challenges. One fourth of AU employees changed their position within their department, or even changed department. By way of example, among the various possibilities, we can examine the numerous transfers to the Integrated Information System, especially with regards to employees with technical/engineering skills, also in relation to the reconfiguration of Help Desk activities which, as we have seen, took on an even more heavily legal/economic aspect.

We are proud of these efforts and we believe they will continue with the same satisfactory results in coming years.

Chairman and Chief Executive Officer

Andrea Pèruzy

CORPORATE STRUCTURE

Board of Directors (2015-2016)

Chairman and Chief Executive Officer	Andrea Péruzy
Directors	Liliana Fracassi
	Vinicio Mosè Vigilante

Board of Statutory Auditors (2014-2016)

Chairman	Paola Ferroni
Statutory Auditors	Ciro Piero Cornelli
	Linda Ottaviano
Alternate Statutory Auditors	Corrado Checcherini
	Silvia Genovese

REPORT ON OPERATIONS

REGULATORY ELEMENTS AND AREAS OF REFERENCE

Acquirente Unico S.p.A. (hereafter also “Acquirente Unico” or “AU”), a company limited by shares wholly owned by Gestore dei Servizi Energetici - GSE S.p.A. (hereafter “GSE”), was established pursuant to Italian Legislative Decree 79 of 16 March 1999, in order to guarantee the supply of electricity to eligible customers.

From 1 July 2007, with the completion of the liberalization of the retail sale of electricity, as a result of Italian law no. 125 of 3 August 2007, for conversion with amendments to Decree Law no. 73 of 18 June 2007 (hereinafter “Law no. 125/2007”), all end-users of electricity, and in particular also civilian or domestic users, have the right to freely choose their electricity supplier. In light of this innovation, Italian law no. 125/07 introduced enhanced protection and safeguards in electricity sales services.

AU’s mission was subsequently extended to include additional activities and functions assigned to it through legislative provisions or sector regulations.

Enhanced protection service

The enhanced protection service targets residential customers and businesses with fewer than 50 employees with annual revenue not exceeding € 10 million (hereinafter the “small customers” or “protected customers”) who decide not to go onto the open market. The service is provided by the enhanced protection provider, which may be a specific sales company, in geographical areas in which the distribution company supplies at least 100,000 end customers, or the same distribution company in other cases. In the context of this service, the supply function is provided by Acquirente Unico.

Acquirente Unico, in accordance with the directives of the Authority for Electricity, Gas and Water Systems (hereafter, “Authority” or “AEEGSI”), transfers to the operators the electricity to be supplied to the protected customers, ensuring the balance of its accounts, according to the provisions of Article 4, paragraph 6 of the aforementioned Legislative Decree no. 79/99.

Legislative Decree 93 of 1 June 2011 (hereafter LD 93/11) subsequently confirmed the enhanced protection service for small customers, providing for possible adjustments over time, in response to the monitoring of developments in the retail market and the existence of effective competition.

During 2016, the enhanced protection service underwent significant organic change on the part of the Authority. In particular, the changes modified the market mechanisms to protect prices for domestic and non-domestic customers in the energy sector, among other things involving a revision in the conditions for the enhanced protection service (known as the reformed enhanced protection service),

effective as of 1 January 2017, and the establishment of a new protection tool accompanying the enhanced protection service, specifically Similar Protection (see resolutions 369/2016/R/eel, 633/2016/R/eel and 541/2016/R/eel).

Additionally, Parliament is examining the Proposed Annual Bill for competition and the market, which contains provisions aimed at overcoming the discipline of the fares determined by the Authority for electricity, gas and water systems, for small customers in the gas and electricity sectors.

Similar Protection

Similar Protection, established through resolution 369/2016/R/eel, is essentially a monitored trading environment in which the end customer is able to operate on the open market, choosing their own vendor from a multitude of certified operators offering supply contracts, in which the variable parameter within the economic conditions is the one-off bonus to be paid to customers.

Similar Protection will last from 1 January 2017 until enhanced protection has been eliminated, and in any case, no later than 30 June 2018.

As part of this institution, Acquirente Unico was appointed as the Protection Administrator, with the task of preparing the Operating Rules (approved by the Authority with resolution 541/2016/R/eel), identifying suppliers certified for Similar Protection and performing other management aspects relative to contact between customers and suppliers, including the preparation of the Central Similar Protection Site, where users of an active electricity supply can select a supplier to make use of the new service.

The same resolution also established that the Central Similar Protection Site will interact with the IIS, which carries out control and accounting functions for reservations and switching carried out under Similar Protection.

Safeguard Service

The Safeguard Service is intended for end users not entitled to enhanced protection in the event that they are without a seller on the open market or did not select one.

The Authority, in implementing the decree of the Italian Ministry for Economic Development of 23 November 2007, has assigned to AU the task of organizing and carrying out the contractual procedures for the selection of the companies that will provide the service, in accordance with the provisions of the Authority.

Supplies of last resort and of the default distribution service - Gas

Subject to the changes introduced by Legislative Decree no. 93/11, the service provision of last resort for vulnerable customers who are temporarily without a gas supplier, is provided to customers who are entitled to the protection service (domestic customers - including condominiums with consumption of no more than 200,000 standard cubic meters per year, utilities related to public service activities, other customers with consumption of no more than 50,000 standard cubic meters per year) by operators selected on the basis of competitive procedures run by Acquirente Unico.

The Authority also assigned to Acquirente Unico the task to manage the tendering procedures for the identification of the default natural gas distribution service, aimed at ensuring the balance of the distribution network, in relation to the take outs of natural gas made directly by the end customer holder of the delivery point, without a supplier, to whom the prerequisites for the activation of the supplier of last resort are not applicable, or when in any case it is otherwise impossible the activation.

Energy consumer Help Desk

Law no. 99/09 provides that the Authority can rely on AU to strengthen its activities of protection of the energy consumers, also with reference to the functions referred to in Article 2, paragraph 12, letters l) and m) of law 14, 481/95.

Legislative Decree no. 93/11, implementing Directives 2009/72/EC and 2009/73/EC, provided, among other things, that the Authority will ensure the efficient handling of complaints and settlement procedures for end users, against sellers and distributors of natural gas and electricity, using AU.

In compliance with these legislative provisions, the Authority entrusted AU with managing the Energy Consumer Help Desk through availment, already as of 1 December 2009. This management was

governed through three-year Operating Projects approved by the Authority, jointly with cost recognition and coverage methods.

Legislative Decree 130/2015, implementing Directive 2013/11/EU in our national legislation, established that disputes between consumers and companies can be resolved out of court, with lower costs and more quickly. This provision began a large process of reforming the protective system during 2016.

Specifically, implementing said legislative provision, through resolution 209/2016/E/com, containing “Adoption of the integrated text on out of court settlement procedures for disputes between customers or end users and operators or managers of sectors governed by the Authority for Electricity, Gas and Water - Integrated Arbitration Text (TICO)”, the Authority established, as of 1 January 2017, an obligation to attempt resolution through the Arbitration Service, or through the entities registered on the specific list kept by the Authority, or which have stipulated a specific protocol with it, as a condition for proceeding to legal action.

Resolution 383/2016/E/com, taking into account the provisions already established by TICO, changed the terms of use for Acquirente Unico in relation to activities associated with the efficient management of complaints and disputes, pursuant to Articles 7, paragraph 6 and 44, paragraph 4 of Legislative Decree 93/11, for the electricity and gas sectors, operational as of 1 January 2017.

In particular, on the basis of the above cited reform, Help Desk activities performed on behalf of the Authority include:

- management of the Conciliation Service to carry out the obligatory attempt at settlement as a necessary condition to obtaining access to the ordinary courts;
- managing special procedures to resolve recurring disputes deriving from specific cases involving information already codified in specific databases which Acquirente Unico has direct access to;
- managing special informational procedures, which allow affected end customers to obtain specific information not available or easily accessed through the operator;
- collecting written notifications and requests for information coming from customers or end users;
- the call centre, an immediately accessible channel that allows a customer or end user to obtain information about the method used to access the services regulated by the Authority, about their rights, liberalisation of the electricity and natural gas markets, arbitration entities that can

be used for the obligatory settlement attempt pursuant to TICO, special procedures and tools used to confirm offers;

- the help desk, which provides consulting to certified branches of consumer associations and trade associations on regulation issues in the sectors the Authority is responsible for, also making use of assistance from the call centre;
- careful monitoring of the results of all activities carried out through availment, in order to allow the Authority to implement any possible follow-up.

Consequently, the Authority approved the proposed 2017-2019 Single Project prepared by Acquirente Unico (resolution 727/2016/E/COM. -Reformed Authority Protective System Project - STAR), to perform activities that are part of the reformed system of protections relative to complaints and out of court resolution of disputes with end customers, through availment of Acquirente Unico, extending the validity of the Availment Regulations until 2019, pursuant to resolution 597/2015/E/com.

In this way the Energy Consumer Help Desk becomes the sole reference point for all the protection tools promoted by the Authority for electricity and gas consumers, as well as providing regulatory support to branches of consumer associations.

Energy consumer conciliation service

The energy consumer's conciliation service was established by the Authority, in its initial experimental phase, based on the provisions of Italian Law no. 99/09 and by Legislative Decree no. 93/11, for the effective processing of disputes of end users against sellers and distributors of electricity and/or natural gas.

From 2013, the year activities began, until the end of 2016, the Energy consumer conciliation service was accompanied by the previously existing tools, to provide final customers with effective, rapid and non-onerous procedures to resolve disputes within the electricity and gas sectors.

To strengthen this provision, the Authority provided for sanctions in the case of non-compliance by the operator, as well as making legally binding the agreement reached between the parties through the Service. In any case, the Authority found it opportune to establish that the previous regulations for the Settlement service continue to apply in a transitional manner to settlement procedures pending as of the date said resolution took effect (6 May 2016) and until they were concluded.

Integrated Information System

The Italian Decree Law of 8 July 2010, no. 105 converted into Law on 13 August 2010, no. 129, (hereinafter "Law no. 129/10") established within Acquirente Unico the Integrated Information System (IIS) for managing the information flows related to the electricity and gas markets, based on a database of collection points and identification data of end users.

In implementing this law, the Authority established:

- the general criteria for the operation of the IIS;
- the fee for covering costs;
- the principle of the separation of accounts of foreign economic and financial activities related to managing IIS with respect to the other activities of the Company;
- the initial information flows to manage.

The functionalities of the IIS were subsequently extended to the management of information related to the consumption of electricity and gas by end users and, therefore, data on related measures of consumption, by the Italian Decree Law of 24 January 2012, no. 1, converted into Law 24 March 2012, no. 27, in line with what is reported by Antitrust in the matter.

In addition, the Legislative Decree n. 102 of 2014 on energy efficiency matters has provided the possibility of the Authority, to rely, among other things, on the IIS, as part of the tasks conferred to the same by the above-mentioned Decree regarding metering and billing of energy consumption.

Within the general framework of process automation in the electricity industry, AU manages - also - the indemnity system, provided by the Authority to ensure compensation to the operator of the sale, in case of non-collection of the debt related to the bills of the last months of delivery of supply, before the effective date of switching. The indemnity system has been operating since 2011.

During 2016, a series of provisions were issued that involved the IIS both in the electricity and natural gas sectors.

In February, with Resolution 73/2016/R/eel, the Authority made amendments and additions to the regulations in effect, functional to the signing and termination of dispatching and transport contracts and introducing provisions on switching for final customers entitled to the protection service.

The provisions contained in this resolution, which took effect as of 1 June 2016, were aimed at redefining all activities aimed at allowing dispatching users to operate on the electricity market, in the light of the new sector resolutions involving the IIS and its interaction, through careful management of informational flows, with Terna and the distribution companies.

Additionally, in March resolution 102/2016/R/com was issued, through which the Authority defined the functional provisions relative to the implementation, through the Integrated Information System, of the transfer process for the natural gas sector, similar to that approved for the electricity sector with resolution 398/2014/R/eel.

Resolution 208/2016/R/eel of 28 April also adopted provisions functional to the implementation of the switching reform for the electricity sector and a reduction in the timeframes for execution of switching in the gas sector, adjusting the regulations in effect to management of the switching process through the IIS.

In the context of managing flows for settlement, with Resolution 312/2016/R/gas of 17 June, approving the Integrated Balancing Text (IBT), implementing European Regulation 312/2014, among other things in order to improve the information available to users the IIS was assigned the task of providing users with an improved set of information, publishing on its website the sum of the annual quantities associated with each delivery point in the distribution networks, an aggregate by the delivery point on the transportation network and broken down by standard delivery profile.

Additionally, Resolution 358/2016/R/eel of June 2016 established that IIS was assigned responsibility for aggregating delivery measurements for the purposes of settlement, both with reference to electricity delivery points processed on an hourly basis as well as with reference to delivery points relative to public lighting systems not dealt with on an hourly basis, for which electricity is conventionally assigned in advance for each hour, starting from the data relative to January 2017.

Relative to the RAI fee and collection of the same through the electricity bill, implementing the 2016 Stability Law, the Decree of the Ministry of Economic Development, in consultation with the Ministry of Economy and Finance, no. 94/2016, was published in the Official Journal in May. This provision governs the methods used to charge and collect the RAI fee in the electricity bill and also contains provisions relative to aligning the databases of the subjects involved (including Acquirente Unico). The Revenue Agency must pay the electricity companies a lump sum amount relative to the expenses suffered to implement that contained in the decree, consisting of € 14 million for 2016 and € 14 million for 2017. Additional provisions refer to the presentation of declarations, claims and reimbursements on the part of users and protection of privacy in the context of the use of personal information by relevant subjects.

Implementing this decree, Resolution 256/2016/R/eel of 24 May 2016 approved the technical specifications prepared by Acquirente Unico in relation to the methods through which the IIS will make information available to electricity companies functional to charging the fee in their invoices,

establishing a requirement for companies to register with the Integrated Information System, which had previously been voluntary.

At the same time, Resolution 378/2016 of 7 July 2016 modified the so-called Bolletta 2.0, relative to highlighting in the bill the item regarding the fee for the use of a television for private use.

Retail Market Monitoring

As of 1 January 2012, the retail monitoring system has commenced its operations. The system has been introduced by the Authority in order to verify the operating conditions of the sale of electricity and gas to households and small customers, the degree of openness, competitiveness and market transparency, and the level of participation and satisfaction of end users.

The Integrated Retail Monitoring Text (TIMR), approved by the Authority for this purpose, has provided for, among other things, the availability of AU, during the collection of data provided by subjects required to participate in the monitoring. Specifically, the activities carried out by AU in this area concern the operational phase of extracting basic data, supplied by the responsible parties, as well as support to the monitoring of the retail market. The method for covering the costs incurred by AU is regulated by the Authority itself.

Italian Central Stockholding Entity - OCSIT

In order to implement the EU Directive 2009/119/EC, which establishes the obligation for Member States to hold a minimum quantity of stocks of crude oil and/or petroleum products, the Italian government issued the Legislative Decree no. 249 of 31 December 2012, published in the Official Gazette no. 22 of 26 January 2013 and in force since 10 February 2013.

The measure, among other things, attributed to Acquirente Unico the functions and activities of Italian Central Stockholding Entity (OCSIT), providing in particular that OCSIT is to acquire, hold, sell, and transport “specific” stocks (finished products referred to in a list defined by the regulations) and can also organize and provide a service of storage and transport of emergency and commercial oil stocks.

As determined by the above-mentioned decree, the costs and expenses incurred by the Company to carry out OCSIT activities are covered by the contribution determined by the Italian Ministry of Economic Development, in consultation with the Ministry of Economy and Finance, and payable by the parties responsible, as identified annually by the Ministry of Economic Development, on the basis of what was released for consumption in the last year of the energy products listed in Annex C, Section 3.1, paragraph 1 of Regulation (EC) No. 1099/2008.

OCSIT is subject to the supervision of the Italian Ministry of Economic Development, which shall determine the guidelines for the exercise of its functions. With a deed of 31 January 2014, the Ministry of Economic Development adopted compliance guidelines for the operational start-up of OCSIT, also on the basis of the business plan it transmitted to the Ministry. With a decree on 3 March 2016, the Ministry of Economic Development established the start of the stock year 2016/2017, from 1 April 2016 to the date the next stock year begins. Therefore, considering this stock year as well, the total requirement for holding of specific stocks for OCSIT is equal to six days of stock.

MACRO ECONOMIC FRAMEWORK

International outlook

In 2016, global economic activity recorded growth that was higher than the previous year, but slightly below expectations, due to various factors. Based on Bank of Italy analysis¹ (using IMF data), global economic conditions continue to vary, with weakness in some emerging economies and a slowdown in advanced economies impeding stronger growth. According to the latest OECD estimates, global gross domestic product increased by 3.1% on average in 2016, while growth in OECD countries was approximately 1.7%².

In emerging countries, the economic cycle has followed a particularly heterogeneous trend. In China, annual GDP growth saw a value that was slightly lower (6.7%) than the figure the previous year (6.9%), in turn the lowest since 1990, but at least in line with the declared objective. Robust growth continued in India (7.4%), while in Brazil the recession was only slightly improved (-3.4%) and in Russia the decline in GDP was reduced (-0.8%), strengthening growth forecasts for the upcoming two year period.

The gross domestic product in developed economies has generally improved. In the United States, growth in economic activity (1.6%) was lower than expected, due to the abrupt reduction in the energy sector and a drop in exports and manufacturing investments. In the United Kingdom growth was in line with the previous year (2%), higher than the overall OECD area, thereby decreasing fears about a decline following the Brexit referendum.

In the euro zone growth continued at a moderate but constant rate, above all due to the push coming from internal demand. However, prospects remain uncertain because of global geopolitical tensions that could influence the trends for the world economy.

Growth in international trade flows was only around 1.9% for the year, at a level that is by now stably low (2.6% the previous year).

In the euro zone, as an average in 2016, inflation measured by the Harmonised Index of Consumer Prices was slightly positive (0.2%), with stronger growth in the last quarter of the year due to an increase in the

¹Bank of Italy, *Economic Bulletin no. 1*, January 2017

²OECD, *Economic Outlook*, n. 100, November 2016

³Bank of Italy, *Economic Bulletin, no. 1* January 2017, pg. 12

prices of energy products (2.6%)³. Conditions on the financial markets in the euro zone remained stable, even if sovereign risk premiums rose in the fourth quarter, due to an increase in interest rates in US dollars.

Domestic outlook

In 2016, inflation in Italy saw a negative change (-0.1%⁴, harmonised consumer price index) for the first time since 1959.

For the year 2016, Italy's estimated GDP growth (adjusted for calendar effects) is equal to 0.9%⁵. This positive trend reflected the contributions made by internal demand and industrial production.

Exports were substantially unchanged with respect to the previous year, with a slight improvement in the final quarter due to an increase in exports of goods to markets outside of the EU.

Industrial production as a whole continued to grow slightly in 2016, following the path begun in the previous year, with confidence indicators for companies at high levels. All the main segments contributed to this trend, while signs of stabilisation in the real estate market continue.

Household consumption continued to increase moderately over the course of the year. A significant increase in available income corresponded with an increase in the tendency to save, which in the previous year, had instead been very moderated. The recovery in newly registered vehicles also continued in 2016 (15.8% with respect to 2015)⁶. The consumer confidence index saw a downward trend during the year, interrupted only in December.

The unemployment rate was 12%, with an annual trend of 0.4% (seasonally adjusted). In December the youth employment figure was at its highest level since June 2015: for young people between 15 and 24 years, the unemployment rate reached 40.1%⁷.

Finally, based on Bank of Italy projections, GDP growth of around 0.9% is forecast for 2017, with slightly higher prospects for the subsequent two year period.

⁴ ISTAT, *Consumer Prices*, 16 January 2017

⁵ Bank of Italy, *Economic Bulletin*, January 2017, pg. 20

⁶ Bank of Italy, *Economic Bulletin*, January 2017, pg. 26

⁷ ISTAT, *Employed and Unemployed*, provisional data, 31 January 2017

ECONOMIC AND FINANCIAL PERFORMANCE

Summary Financial statements

The income statement and balance sheet data for the 2016 financial year are shown in summary in the schedules set out in the following pages obtained by reclassifying the statutory accounting statements prepared in accordance with the Italian Civil Code.

In addition to the reclassified schedules, detailed analytical data is presented concerning:

- operating costs, separately for the six macro-areas that comprise AU activities;
- the trend in operating costs;
- financial management results.

The main operating highlights are also summarized in an overall synthesis, as shown in the Table in the following page.

Main operating figures

For the purposes of offering a brief presentation of the global operating trend of Acquirente Unico in 2016, Table 1 shows the main economic and financial data.

Table 1: Summary of the main operating data (€ thousand)

	2016	2015	Changes	Changes
	(€ thousand)		(€ thousand)	%
Revenues from the sale of electricity	3,549,682	4,186,871	-637,189	-15.22
Profit	142	196	-54	-27.55
Investments in specific stocks (OCSIT) - value at end of year	296,592	184,803	111,789	60.49
Other Investments (tangible and intangible assets) - value at end of year	4,661	4,293	368	8.57
Shareholders' equity	8,751	8,920	-169	-1.89

Source: Internal processing, Acquirente Unico.

Reclassified Income Statement

Table 2: 2016 Reclassified Income Statement (€ thousand)

	2016	2015	Changes
Revenues:			
- Revenues from energy sales to enhanced protection operators	3,549,682	4,186,871	(637,189)
- Other energy related revenues	26,853	24,238	2,615
- Revenues to cover help desk costs	7,983	8,041	(58)
- Revenues to cover IIS costs	6,727	5,403	1,324
- Revenues to cover retail monitoring costs	244	196	48
- Revenues to cover conciliation service costs	762	364	398
- Revenues to cover OCSIT costs	10,063	5,553	4,510
- Other revenues and income	724	770	(46)
a) Total operating revenues	3,603,038	4,231,436	(628,398)
Costs:			
- Energy purchases	2,761,471	3,571,611	(810,140)
- Purchases of energy-related services	807,201	631,008	176,193
Total energy costs	3,568,672	4,202,619	(633,947)
- Other purchases of consumables	22	20	2
- Personnel costs	12,899	12,656	243
- Services costs:	8,447	8,118	329
* services from parent company	1,667	1,742	(75)
* other services (including accessory storage costs)	6,780	6,376	404
Leases:	9,793	5,402	4,391
* fees for oil product storage services	8,217	3,823	4,394
* other	1,576	1,579	(3)
- Sundry costs	505	300	205
b) Total costs (not including amortisation/depreciation)	3,600,338	4,229,115	(628,777)
c) Gross operating margin (a-b)	2,700	2,321	379
d) Amortisation, depreciation and write-downs	2,360	2,072	288
Total Operating Costs	3,602,698	4,231,187	(628,489)
e) Operating income (c-d)	340	249	91
- net financial income/ (expenses)	(19)	56	(75)
Profit before taxes	321	305	16
Income Taxes	179	109	70
- Current taxes	315	713	(398)
- Taxes relative to previous years	(84)	(65)	(19)
- Deferred tax liabilities and assets	(52)	(539)	487
PROFIT FOR THE YEAR	142	196	(54)

Source: Internal processing, Acquirente Unico.

Revenue

Total operating revenue (Table 2), equal to € 3,603,038 thousand, was generated in particular from the activity of the energy sale to companies serving the Enhanced Protection Market (€ 3,549,682 thousand). Income from energy sale, in addition to covering the cost of supply of electricity and related services (dispatching etc.), include the fee for energy operation costs, in the adjusted amount quantified by adopting the rate of return on capital before taxes, according to the methodologies consistently applied by AEEGSI (€ 7,863 thousand).

Total operating revenues also include other energy related income (unbalancing fees, etc.), amounting to € 26,853 thousand, income to cover the operating cost of activities carried out under the availing procedure and those related to IIS and OCSIT, and finally revenue and other income.

As a whole, operating revenues recorded a decrease of € 628,398 thousand compared to the previous year. The decrease was due to lower income from the sale of electricity to enhanced protection service operators (€ -637,189 thousand), as a direct consequence of the decrease in the cost of electricity supply, since the economic management of electricity purchase occurs within the economic break even regime.

Operating costs

Total operating costs, gross of amortisation/depreciation and write-downs, totalled € 3,602,698 thousand, as can be seen in the reclassified income statement (Table 2), of which € 3,568,672 thousand for electricity purchases and sales (including services connected to electricity), € 25,484 thousand for total operating costs and € 8,542 thousand for costs to manage stocks of oil products (these latter, more specifically, indicating the sum of fees for storage services and accessory charges, included under the sub-item *other services*).

Energy purchase costs refer to € 2,761,471 thousand to purchase electricity and € 807,201 thousand to acquire energy related services (dispatching and other). This item also shows, as a whole, a decrease of € 633,947 thousand compared to the previous year.

Because of the dynamics of the cost of electricity purchases and related services, the decrease of € 633,947 thousand, shown in Tables 3 and 4 below, is due to the combined effect of the reduction in transactions of physical quantities (-3,963,100 MWh, equal to -6.42% over the previous year) and to the

decrease in the average unit cost of purchase, including services (-6.30 €/ MWh, corresponding to a change of -9.26% over 2015).

Table 3. Energy purchase costs (€ thousand)

	2016	2015	Change	Change %
Costs for supplying energy	3,568,672	4,202,619	(633,947)	-15.08%

Source: Internal processing, Acquirente Unico.

Table 4. Change in benchmark purchase costs

	2016	2015	Change	Change %
Quantity in MWh	57,801,700	61,764,800	(3,963,100)	-6.42%
Unit cost (€/MWh)	61.74	68.04	(6.30)	-9.26%

Source: Internal processing, Acquirente Unico.

Operating costs totalling € 25,484 thousand in 2016 are related to administration of the structure in the different areas in which AU operates.

The schedules shown below, appropriately processed and highlighted in Tables 5 and 6, indicate respectively:

- total operating costs by macro-expense;
- a breakdown of operating costs based on a criteria of destination, that is specifically indicating the respective area of activity, in both cases comparing the 2016 figures with those of the previous year.

Table 5: Operating costs analysed by macro-expense

€ thousand

	2016	2015	Changes 2016 vs. 2015	Changes % 2016 vs. 2015
Raw materials, supplies, consumables, and goods – non-energy purchases	22	20	2	10.0%
Services - excluding energy services and OCSIT accessory charges	8,122	7,957	165	2.1%
Leases - excluding stock storage fees	1,576	1,579	(3)	(0.2%)
Personnel	12,899	12,656	243	1.9%
Amortisation, depreciation and write-downs - excluding stock warehouse cost	2,360	1,894	466	24.6%
Other operating expense - exclusive of passive energy contingencies	505	300	205	68.3%
Total	25,484	24,406	1,078	4.4%

Total operating costs (€ 25,484 thousand) increased by € 1,078 thousand compared to 2015. The item which saw the most significant growth is Amortisation/Depreciation (€ +466 thousand), due to the implementation of new investments.

Table 6: Operating costs by area of activity (€ thousand)

OPERATING COSTS	2016	2015	Changes	Changes %
Energy Area	8,207	8,851	(644)	(7.3%)
Consumer Help Desk	7,991	8,074	(83)	(1.0%)
Integrated Information System - IIS	6,754	5,529	1,225	22%
Italian Central Stockholding Entity - OCSIT	1,526	1,392	134	10%
Retail monitoring	244	196	48	24%
Conciliation Service	762	364	398	109%
Total	25,484	24,406	1,078	4%

¹Amount before penalties applied to an external supplier of the Call Centre service

Source: Internal processing, Acquirente Unico.

Breaking down operating costs by area, the amount as a whole includes management of the Energy Area (€ 8,207 million), the services provided by the Consumer Help Desk (€ 7,991 thousand), the implementation and management of the Integrated Information System (€ 6,754 thousand), the operational management of OCSIT – Italian Central Stockholding Entity for € 1,526 thousand, the activity of Retail Monitoring for € 244 thousand and, finally, to the services supplied by the Conciliation Service, for € 762 thousand.

The trend by operating area shows that overall growth can mainly be traced to development of IIS activities (€ +1,225 thousand) and, to a lesser degree, the Conciliation Service (€ +398 thousand), and was partially contained by a decrease in costs of Energy Area and Help Desk.

Finally, again as part of the operating costs, **costs to manage stocks of petroleum products** relative to OCSIT are recognised (€ 8,542 thousand); these charges, appropriately analysed, consist of the cost of petroleum product storage service fees (€ 8,217 thousand) and from accessory storage fees (€ 325 thousand), included under the subitem "other services".

The schedule below shows the trend of total operating costs during 2016-2015.

Table 7: Trend of total operating costs in the 2016-2015 period

€ thousand	2016	2015	Changes 2016 vs. 2015	Changes % 2016 vs. 2015
Operating expenses for Electricity	3,568,672	4,202,619	(633,947)	(-15.1%)
Operating expenses for managing petroleum product stock	8,542	4,162	4,380	105.2%
Operating costs	25,484	24,406	1,078	4.4%
Total	3,602,698	4,231,187	(628,489)	(-14.9%)

The aggregate of total operating costs equalling € 3,602,698 thousand indicates a 14.9% decrease (€ - 628,489 thousand) over 2015, traceable to the decrease in electricity supply costs.

As regards methods of covering operating costs, the fees related to the **Energy Area**, net of other income pertaining to the same area, are covered by the adjusted remuneration for the year 2016, calculated according to the algorithms consistently adopted by AEEGSI. The excess between the

amount of the consideration and the amount of the net operating expenses to be covered contributes to the pre-tax return on invested capital.

The following is noted regarding the costs incurred by AU in 2016 for operating the other business areas that are part of the Company:

- the costs of the activities granted by the Authority (Consumer Help Desk, Retail Conciliation Service, and Retail Market Monitoring) are covered by payments made by the Energy and Environmental Services Fund;
- the costs of the Integrated Information System are covered through a monthly fee charged to operators of the enhanced protection electricity service, to the companies serving the open energy market and to gas sector operators;
- finally, the cost of OCSIT operations is met by the contribution charged to the specifically concerned petroleum operators.

Operating Income

The **Gross Operating Margin** was positive, amounting to € 2,700 thousand, compared with the amount of the previous year of € 2,321 thousand.

With amortisation, depreciation and write-downs (€ 2,360 thousand) deducted, **Operating Income** of € 340 thousand was achieved, slightly higher than the previous year's figure.

Net Financial Income/(expenses)

Net financial income/(expenses) and the reasons for its performance are shown in the table below.

Table 8: Net Financial Income/(expenses): 2016-2015 comparison

€ thousand			
	2016	2015	changes
Interest income on bank current accounts	8	40	(32)
Interest and penalties for late payment from operators	225	305	(80)
Other financial income	2,532	2,288	244
Gross financial income	2,765	2,633	132
	2016	2015	changes
Financial expense on medium-term loans	2,516	2,289	227
Interest expense on short-term borrowings	25	44	(19)
Other financial charges	243	244	(1)
GROSS FINANCIAL EXPENSE	2,784	2,577	207
NET FINANCIAL INCOME/(EXPENSES)	(19)	56	(75)

Source: Internal processing, Acquirente Unico.

In 2016, net financial expenses amounted to € 19 thousand, against net financial income of € 56 thousand in previous year.

It should be noted that the expense relative to loans granted to OCSIT, particularly related to medium-term financing used for the purchase of stocks of petroleum products, is offset by the item Other financial income. This item also includes, as shown in the Notes, the share of the contribution due from petroleum operators for OCSIT charges, specifically related to the covering of financial expenses incurred in the management of OCSIT pursuant to the cost-income accounting principle.

The change in net income, equal to € -75 thousand, is the result of the increase in gross financial income (€ +132 thousand), less than proportional to the increase in gross financial expense (€ +207 thousand).

The sub-items showing the largest changes include interest receivable for delayed payments and penalties relative to operators (€ -80 thousand), due to improvement of credit management, and other financial income (€ +244 thousand), essentially due to greater coverage of interest payable associated with management of OCSIT.

Profit before taxes

Profit before taxes is equal to € 321 thousand, compared to € 305 thousand in 2015. The result follows the application of a rate of return before taxes of 3.69% on the net capital of AU, pursuant to the calculation methodology consistently adopted by AEEGSI.

Profit for the year

Profit for 2016 equalled € 142 thousand, compared to € 196 thousand in 2015. The small decrease is essentially due to the increase in taxes payable.

Reclassified Balance Sheet

The reclassified Balance Sheet as of 31 December 2016, compared with the previous year is detailed in Table 9:

Table 9: Summary of the financial position, 2016 (€ thousands)

	Dec. 31, 2016	Dec. 31, 2015	Changes
NET FIXED ASSETS			
<i>Intangible Assets</i>	3,693	3,275	418
<i>Tangible Assets</i>	297,560	185,821	111,739
<i>Financial assets</i>	581	326	255
	301,834	189,422	112,412
NET WORKING CAPITAL			
- <i>receivables due from customers</i>	752,636	738,087	14,549
- <i>receivables due from parent company</i>	13,179	5,128	8,051
- <i>receivables due from Energy and Environmental Services Fund</i>	199	4,634	(4,435)
- <i>other assets</i>	1,742	1,405	337
- <i>payables due to suppliers</i>	(258,402)	(86,288)	(172,114)
- <i>payables due to parent company</i>	(366)	(327)	(39)
- <i>payables due to subsidiaries of parent companies</i>	(448,619)	(630,326)	181,707
- <i>payables due to Energy and Environmental Services Fund</i>	(42)	(335)	293
- <i>other liabilities</i>	(11,435)	(10,684)	(751)
Total	48,892	21,294	27,598
INVESTED CAPITAL	350,726	210,716	140,010
PROVISIONS	(2,032)	(2,063)	31
INVESTED CAPITAL NET OF PROVISIONS	348,694	208,653	140,041
COVERAGE			
SHAREHOLDERS' EQUITY	8,751	8,920	(169)
<i>Share Capital</i>	7,500	7,500	-
<i>Legal reserve</i>	1,109	1,099	10
- <i>Available reserve</i>	-	125	(125)
- <i>Profit for the year</i>	142	196	(54)
NET FINANCIAL DEBT (CASH)			
<i>Net debt to banks in the short term</i>	43,096	14,887	28,209
<i>Net debt to banks in the medium and long term</i>	296,850	184,850	112,000
<i>Cash and cash equivalents</i>	(3)	(4)	1
Total	339,943	199,733	140,210
TOTAL	348,694	208,653	140,041

Source: Internal processing, Acquirente Unico.

Invested Capital

Total fixed assets (€ 301,834 thousand as of 31 December 2016) show a significant increase (€ 112,412 thousand) over the previous year, mainly due to OCSIT's investments in oil stocks. In fact, the increase is due to the investment made during 2016 to procure an additional three days of stock.

Net working capital of € 48,892 thousand, is mainly formed by receivables due from customers (enhanced protection service operators and, to a much lesser extent, other counterparts) amounting to € 752,636 thousand and by payables due to suppliers, for € 258,402 thousand, as well as relative to subsidiaries of the parent company for € 448,619 thousand.

Invested Capital (including net fixed assets) amounts to € 350,726 thousand, which falls to € 348,694 thousand, net of provisions.

Sources

Shareholders' Equity totals € 8,751 thousand, including Net Profit of € 142 thousand for the year. The decrease compared to the previous year (€ -169 thousand) is, among other things, due to the distribution of available reserves in the year.

The difference between Invested Capital (net of provisions) and Shareholders' Equity resulting primarily from net financial debt (including the amount of funding aimed at supplying stock to OCSIT, equal to € 296,850 thousand), amounted to € 339,943 thousand at the end of 2016.

Relative to the overall debt risk profiles, in theoretical terms, a general refinancing risk for financial debt upon maturity cannot be ignored, given the complex structure of company cash-flow. However, based on past evidence and hence in a clearly empirical sense, the company's ability to honour its debts at maturity has been demonstrated, obtaining suitable financing sources.

ACTIVITY IN ENERGY MARKETS

Total electricity demand

In 2016, electricity demand totalled 310.25 TWh ⁽⁸⁾, showing a decrease of 2.1% compared to 2015 (a year in which, instead, an increase of 1.5% over 2014 was recorded). The monthly changes over the previous year were all negative, except for the months of February and December.

Electricity demand for the enhanced protection service

Energy demand for the enhanced protection service in 2016 totalled 57.8 TWh accounting for 18.6% of total demand (19.6% in 2015).

Consumption and oil price trends⁽⁹⁾

In 2016, global demand for oil saw a small positive change, rising to 96.3 million bbl/d, with an increase equal to 1.5 million bbl/d with respect to 2015. This figure is 85% attributable to non-OECD countries which as a whole accounted for 52% of total demand, compared to 49% in 2013. On the other hand, during the first part of 2016, prices saw their lowest levels in recent years (US\$25.8/bbl in January). However, there were clear signs of recovery starting in the spring when, as rumours spread about possible agreements to "freeze" production between producing countries, there was a series of increases (some significant), which continued until the beginning of summer.

The second part of the year was instead initially characterised by substantial stability, interrupted in October and November by news of an agreement between OPEC and non-OPEC countries involving a cut of 1.8 million bbl/d during the first six months of 2017. This commitment to reduce production for the first time in seven years represented an abandonment of the non-interventionist policy, pushed by Saudi Arabia, followed since November 2014 and gave a clear message to the markets, leading to an increase in prices which exceeded US\$51/bbl (+98% over the minimum of 25.8 in January). In November, prices fell to the level of US\$40/bbl and then again leapt up to 53 at the beginning of December after formalisation of the agreements between OPEC and non-OPEC countries. Despite

⁸ Source: Terna SpA - Monthly report on the electricity system at end of December 2016. This report also provides updated figures relative to the previous year.

⁹ Source: Unione Petrolifera

these increases during the second half of the year, the Brent dated remained at a value that was 18% lower with respect to 2015 and 60% lower than in 2014, with an annual average of US\$44/bbl, not far from the lower limit of US\$45-55/bbl indicated in the 2015 oil forecast.

The International Energy Agency (IEA) predicts that world oil demand in 2017 will continue to grow, although to a lesser extent than in 2016, adding an additional 1.3 million bbl/d thanks to growth trends in consumption from non-OECD countries, with estimated total demand of around 97.6 million bbl/d.

Trend of the euro/dollar exchange rate

The euro/dollar exchange rate in 2016 was less volatile than the previous year. During the year, it went from an average of about € 1.0860/US\$ in January to about € 1.0539/US\$ in December, showing a downward trend during the year. The average annual rate was equal to around € 1.1069/US\$. As noted above, the maximum in 2016 was seen in May with a rate of € 1.1527/US\$. The minimum of € 1.0384/US\$ was seen in December.

Chart 1: Brent price vs Euro/Dollar 2010-2015



Source: Brent prices (Bloomberg); EUR/USD exchange (Bank of Italy)

Trends in the electricity prices

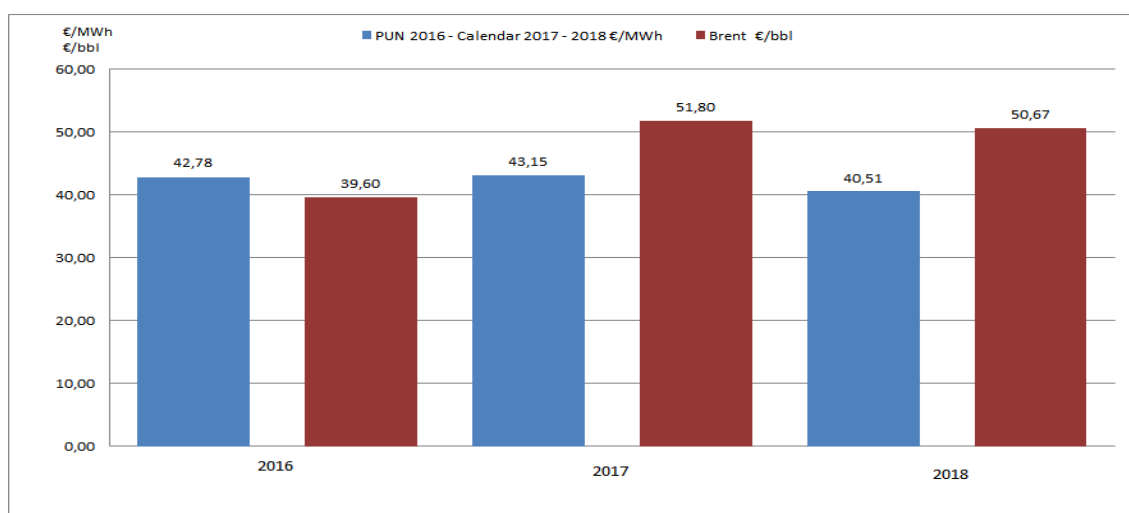
In 2016, electricity traded on the Day Ahead Market continued to increase with respect to 2015, even if supply was substantially unchanged.

The increase amounted to +0.6% and was much lower than that in 2015 which was supported, on the procurement side, by a significant increase in exports (+64.9%) caused by the unscheduled stoppage of certain French nuclear power plants during the last quarter of the year. This circumstance, on the sales side, had the consequence of a collapse in electricity imports from abroad, supporting a recovery in sales from national producers (+3.3%) which returned to 2013 levels after the historic lows of the 2014-2015 period. Particularly worthy of note are gas plants (+18.6%) and, among renewable sources, wind (+6.4%). The liquidity of the electricity market, which in 2015 was equal to a value of 67.8% gained nearly 2 percentage points and now stands at 70%, the highest level since 2013.

In 2016 the downward trend for trading on the Forward Electricity Market (MTE) continued at more consistent levels, which had begun in 2015. In fact, a significant change in transactions recorded was seen, equal to -8.4%. The most traded product, the Annual 2017 base-load, closed the trading period at € 47.20 / MWh, while the 2017 Annual Peakload Product ended the trading period at € 50.90 / MWh.

The graph of Chart 2 shows for 2016 the average value of the SNP and the Brent Swap and, for 2017 and 2018, the average annual baseload product and its Brent Swap.

Chart 2: SNP and Brent trends



Source: Brent price (Bloomberg); SNP (Energy Markets Manager – GME S.p.A.)

The graph makes clear the lack of correlation between Brent and electricity prices.

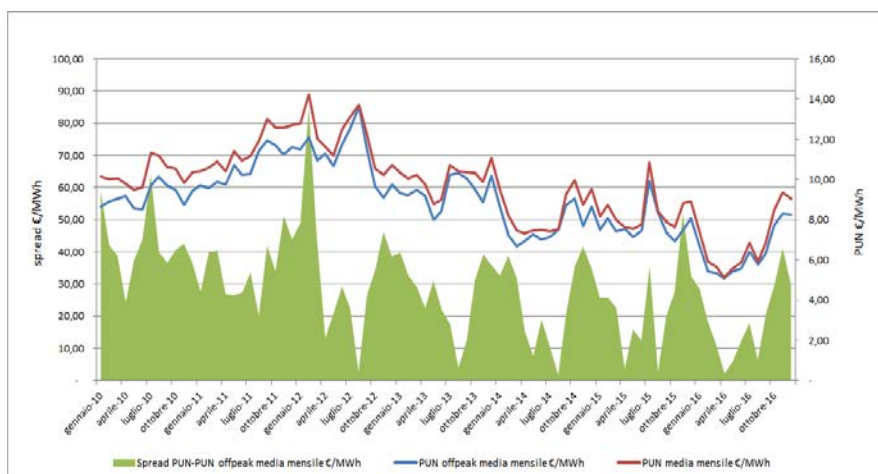
In 2016, the SNP saw its lowest price since it began in April of 2004, with an annual average of € 42.78/MWh, around € 10/MWh lower than the 2015 average (-18.2%). This also significantly reduced the differential relative to the most important European markets.

At peak hours, the price saw a new historic low, compared to that of 2015, reaching € 48.34/MWh (-18.5%). The price during off-peak hours also saw a historic low, equal to € 39.85/MWh (-18%). The peak/baseload price ratio remained unchanged with respect to the previous year, equal to 1.13, in line with the lowest levels of the previous five years.

The maximum hourly price, up with respect to 2015 and equal to € 150.00/MWh, was seen at 7:00 pm on Tuesday 15 November. The lowest hourly price, equal to € 10.94/MWh, was recorded at 2:00 pm on Sunday 27 March. The volatility of the purchase price rose (Variation Ratio ⁽¹⁰⁾ VR = 0.30; +5 percentage points with respect to 2015). A very significant figure that demonstrates the changes that have affected the performance of the SNP over recent years is highlighted by Figure 3, which represents the average monthly SNP (all hours of the month) and the SNP in the Off-Peak hours (from 8:00 pm to 8:00 am from Monday to Friday and all hours on Saturday and Sunday). The differences in terms of monthly average between the SNP and the Off Peak SNP were equal to € 6.7/MWh in 2010, € 5.5/MWh in 2011, € 5.4/MWh in 2012, € 4.05/MWh in 2013, € 3.89/MWh in 2014, € 3.69/MWh in 2015 and € 2.99/MWh in 2016, again in this case recording the historic low.

Furthermore, as regards the SNP in the F1, F2, F3 bands in the period from March 2016 to June 2016, and the month of August, the F2 price band was systematically higher than that in F1, strengthening a phenomenon that had already occurred in the previous year. This trend can be attributed to a weak demand for electricity compared to the availability of generation plants, especially with regard to the strong spread of production from renewable sources, in particular photovoltaic to which, as it is known, is mostly due the so-called peak shaving, namely the reduction of the SNP during peak hours.

¹⁰ Price volatility index calculated as the ratio between the standard deviation and the absolute value of the average of hourly prices expressed in percentage terms. This is a relative dispersion index that makes it possible to compare phenomena with different numbers and units of measurement, as it is a pure number (without units of measurement).

Chart 3: SNP Price Trends ⁽¹¹⁾ 2010-2016

SNP data source: Gestore dei Mercati Energetici – GME S.p.A.

¹¹ SNP: Single National Price, Article 42.2, paragraph c of the Integrated Text on the Electricity Market, approved by Ministerial Decree dated 19 December 2003, as amended.

Electricity supply

AU purchases energy to cover the demand for the Enhanced Protection Service, through a purchase program that meets the requirements of cost-effectiveness and transparency, consistent with reference market trends.

Based on the forecasts of needs, analysing the fuels market and the trend in the prices of energy products, defines the purchase portfolio of diversifying the hedging channels.

The table below shows, by type of supply, the comparison between 2016 and 2015 of purchases for the Enhanced Protection market.

Table 10: Electricity supply for the Enhanced Protection Service 2016 vs. 2015

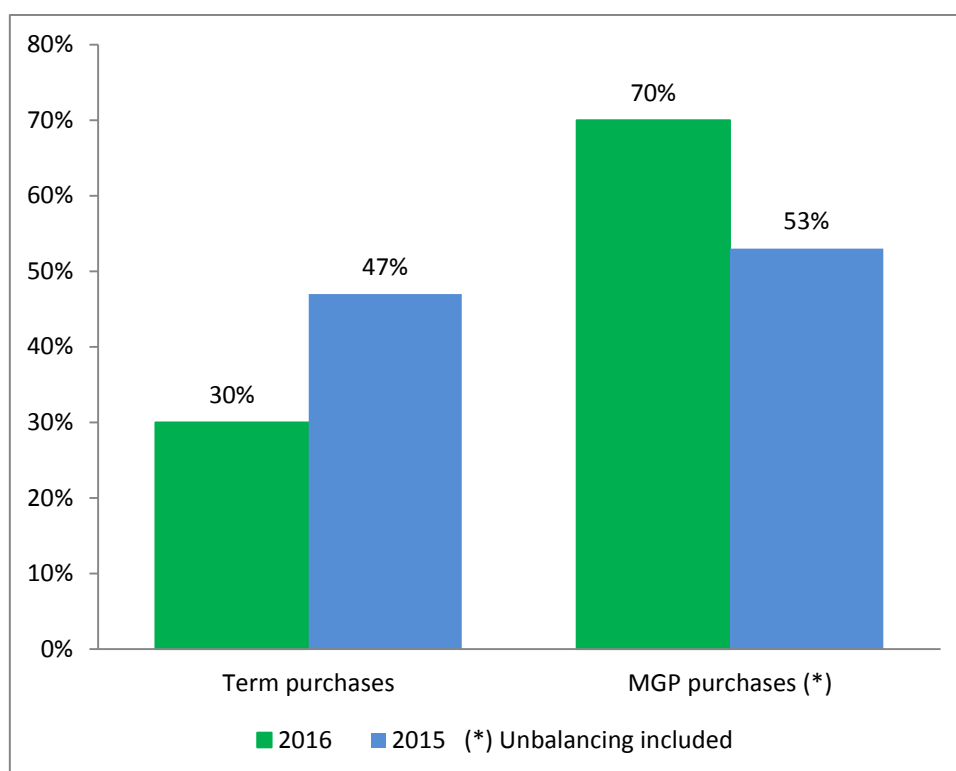
Type of supply	2016		2015		Changes 2016 vs. 2015	
	GWh	%	GWh	%	GWh	%
a) Forward purchases						
Physical contracts:						
a.1) national	13,940.2	24.1%	13,849.6	22.4%	90.6	0.7%
a.2) MTE	3,654.1	6.3%	15,242.4	24.7%	-11,588.3	-76.0%
Total forward contracts (a.1+a.2)	17,594.3	30.4%	29,092.0	47.1%	-11,497.7	-39.5%
b) Purchases on DAM	40,585.8	70.2%	31,561.7	51.1%	9,024.1	28.6%
c) Unbalances	-378.4	-0.6%	1,111.1	1.8%	-1,489.5	-134.1%
Total energy purchases (a+b+c)	57,801.7	100.0%	61,764.8	100.0%	-3,963.1	-6.4%

Source: Internal processing, Acquirente Unico.

Evidencing in brief the coverages on the basis of the type of supply, the portfolio is divided into:

1. Forward purchases (physical national contracts; MTE);
2. Purchases on the DAM.

Chart 4: Supply types 2016 vs. 2015



The comparison between the portfolio shows, between 2016 and 2015, the reduction of forward purchases (30% vs 47%) and the substantial increase in purchases on the DAM (70% vs 53%).

The average annual cost of supply (excluding costs related to energy services) in 2016 was € 47.31/MWh, against € 57.43/MWh in 2015.

Purchase portfolio

In 2016, the decisions on diversification led to 30% hedging requirements through forward contracts and to 70% purchases on the Electricity Exchange (DAM). The unbalance in 2016 was negative and amounted to 0.6% of the energy requirement.

Below is the breakdown for each type of purchase.

Energy obtained through physical contracts

The energy purchased in 2016 through physical contracts was equal to 17,594 GWh, split up as follows:

- a) National physical bilateral contracts, amounting to 13,940 GWh;
- b) Purchases on the MTE, amounting to 3,654 GWh.

National Physical Bilateral Contracts

AU has selected counterparties for bilateral contracts through national physical auctions held online via the special web portal, in order to ensure greater competition among suppliers and transparency in the selection of the successful contractor.

The energy, underlying all the bilateral physical contracts stipulated for 2016, amounted to 13,940 GWh.

MTE

MTE, market managed by GME, represents a further supply channel for AU. Products have been purchased through daily product trading, with the basic 2016 profile, totalling 3,654 GWh.

Energy supplied through the bidding system (Power Exchange)

AU operates daily on the Power Exchange, entering its bids on the Day-Ahead Market (DAM). Supplies through the DAM are valued at the SNP and correspond to the portion not covered by the requirement of physical contracts.

In 2016 supplies through DAM purchases amounted to 40,586 GWh.

Unbalances

Under AEEGSI Resolution no. 111/06, in 2016, the time offsets between final and binding program (purchases on the Power Exchange and physical contracts), to cover the energy needs of the Enhanced Protection market, totalled -378 GWh, equivalent to 0.6% of total requirements.

Risk management

In 2016, purchase contracts at a physical term (national physical bilateral contracts and MTE supplies), such as operational tools to hedge the price risk, were adopted.

Starting on 1 January 2017, with the introduction of Reformed Enhanced Protection (REP), as established in resolution 633/2016, procurement through the Spot Energy Markets (DAM and MPEG) has been established for Acquirente Unico. No physical spot contract has been signed in this manner for the year 2017.

Financial settlement methods for purchases made on the Power Exchange (DAM)

Starting in December 2016, following the issuing of Decree MiSE of 21 September 2016, approving the amendments to the Power Exchange Regulations, regarding changes to the conditions and schedules for settlement of payments on the Day Ahead Market (DAM) and infra-day market, due dates for payments and collection of energy items on the DAM have seen significant changes.

Relative to AU, which obtained most of its needs through DAM purchases during 2016, as already indicated, the financial settlement date for purchases, as seen in the calendar prepared by the GME, as a rule coincides with the Thursday of the week subsequent to that in which the purchases were made. This involves payment being made much earlier with respect to that which occurred in the past, when payment was made midway through the second month following that in which purchases were made on the DAM.

On the other hand, no changes occurred with reference to collections of invoices payable, issued by AU to enhanced protection service operators. Collection occurs midway through the second month following that in which purchases on the DAM were made. As a consequence, already as of December, this asymmetry between payment dates and corresponding collection dates began to create financial requirements, due to the amount of energy transacted on the DAM, which AU covered through an array of operational/management options, so as to honour its commitments and, at the same time, rationalise its economic burden relative to financial expense.

Energy supply costs

Energy supply costs for 2016, including service costs and net of other revenues then transfer (unbalancing etc.), amounted globally to € 3,541,819 thousand, of which € 2,734,618 thousand was for the purchase of energy and the remaining € 807,201 thousand for dispatching and other service costs (Table 11).

Table 11: Energy supply costs (€ thousand)

Purchase cost of energy	2016	2015	Changes
Total cost of energy purchases net of other revenues	2,734,618	3,547,373	(812,755)
Total dispatching cost	801,489	625,834	175,655
Total cost for other services	5,712	5,174	538
Total cost for dispatching and other services	807,201	631,008	176,193
Total cost of energy net of other revenues	3,541,819	4,178,381	(636,562)

Source: Internal processing, Acquirente Unico

Sales of electricity to companies providing the enhanced protection service

Companies providing the enhanced protection service

At the end of 2016, the number of companies providing the enhanced protection service was 119.

Billing of Electricity sold by AU

The quantities invoiced monthly by Acquirente Unico to the enhanced protection service operators are defined based on the resolution made by the Authority for Electricity, Gas and Water Systems, ARG/elt 107/09 (Integrated Settlement Text, TIS), as amended.

The invoicing and payment settlement methods are instead governed by resolution ARG/elt 156/07, as amended (Integrated Sales Text, TIV).

In 2016, following the settlement of balances by Terna with dispatching users, Acquirente Unico made balancing adjustments for all operators of the enhanced protection service for the energy sold in 2015, as well as for the late adjustments for the previous five years (2010 - 2014).

Sale price

The sale price of electricity for companies serving enhanced protection is determined by the criteria set by AEEGSI resolution no. 156/07 and is equal to the sum of three components:

- the weighted average unit costs incurred by Acquirente Unico in the hours included in a given time slot (F1, F2, F3), for the respective amounts of electricity;
- the unit cost incurred by Acquirente Unico as a dispatching user for the enhanced protection service in the hours included in said bands;
- the unit price recognized for Acquirente Unico for electricity purchases and sales for the enhanced protection market.

Table 12 shows the trend in the sale price in individual months of 2016.

Table 12: Sale prices (€/MWh)

	Monthly Total (€/MWh)											
	January	February	March	April	May	June	July	August	September	October	November	December
F1	68.938	56.418	52.633	52.083	55.138	58.861	69.710	61.574	69.010	74.372	81.469	78.499
F2	63.167	55.519	54.815	57.579	58.890	60.413	67.957	64.159	68.440	73.205	73.962	72.660
F3	52.173	47.818	48.368	50.605	52.124	52.413	59.778	58.452	58.423	58.437	60.319	61.758
Average	60.877	53.427	51.860	53.279	55.170	56.967	65.604	61.135	65.305	68.572	72.173	70.780

Source: Internal processing, Acquirente Unico.

Safeguard Service – Electricity

Implementing the Authority's directives, in November 2016 Acquirente Unico carried out the tender procedures to assign the safeguard service for the 1 January 2017 - 31 December 2018 period. Upon completion of the foregoing procedures, Enel Energia S.p.A. and Hera Comm S.r.l. were declared as the winners.

Supplier of last resort and Default distribution service - Gas

Based on the guidelines provided by the Authority, in the month of September 2016, Acquirente Unico carried out the tendering procedures for the identification of suppliers of last resort and the natural gas default distribution service for the next two thermal years (1 October 2016 - 30 September 2018).

Both the last resort supply service and the default distribution service were awarded to Hera Comm S.r.l. and Enel Energia SpA.

ACTIVITIES IN SUPPORT OF OPERATORS AND END USERS

Energy consumer Help Desk

Management through availment of the effective treatment of complaints through the Help Desk was governed through three-year Operating Projects approved by the Authority, jointly with cost recognition and coverage methods.

The *2016 Operating Project*, approved by the Authority with resolution 600/2015/E/com, confirmed the Help Desk's role in effectively processing complaints for a single year, against the already planned changes in the legal and regulatory structure for tools to protect electricity and gas consumers.

The Authority's reorganisation of these tools saw full involvement of the Help Desk in terms of both activities and organisation.

In fact, as of 2017 the Energy Consumer Help Desk will become the **sole reference point** for all the electricity and gas consumer protection tools promoted by the Authority (*Toll Free Number +39 800.166.654, Energy Consumer Conciliation Service, Special Procedures, Information Requests and Notifications*), as well as supplying regulatory support, through the Help Desk Service, to branches of domestic and non-domestic consumer associations accredited by the Authority.

More specifically, as of 01/01/17 activities to provide effective solutions for second level disputes between electricity and gas end customers on issues governed by the Authority, which had been managed by the Help Desk until the end of 2016, will be managed by the *Energy Consumer Conciliation Service*, serving as the main tool to resolve these problems and as a necessary condition for accessing the ordinary courts, while *Special Procedures* will become the channel for resolving specific problems (Settlement Procedures: bonuses, cancellation of CMOR pursuant to the amendment to resolution 99/12, unrequested contracts pursuant to Articles 8 and 9, resolution 153/12, lack of indemnity, double billing), or for requests for information relative to specific issues (Special information procedures: *CMOR amount and supplier, supplier transfer, switching date and supplier*).

Again, as of January 2017, the Toll Free Number +39 800.166.654 was enhanced through the introduction of new services, such as information about Similar Protection and Cases Begun with the Conciliation Service, together with management of requests for written information.

Additionally, in 2016, the Settlement Service was registered by the Authorities in the list of ADR Bodies, pursuant to Article 141-*decies* of the Consumer Code (as amended by Italian Legislative Decree 130/15).

2016 can be seen as a "bridge" year for the Help Desk, in view of the significant regulatory changes to be enacted as of 01/01/17, which led to an in-depth reorganisation of the system to protect electricity and gas end customers (resolution 383/2016/E/com), as already outlined above (see the section "Main Regulatory Elements and Areas of Reference").

2016 was the last year of activities for the Help Desk as the tool used to manage second level complaints for all issues regulated by the Authority in the electricity and gas sectors, in the form seen for the last 7 years. Activities were carried out in compliance with the *2016 Operating Project* approved with resolution 600/2015/E/com.

In order to provide an effective response to these changes, Acquirente Unico reorganised the "Consumer Help Desk" area starting in February 2016, bringing all the protection tools managed in availment on the account of the Authority under a single area (Toll Free Number +39 800.166.654, Complaint and Notification Management, Energy Consumer conciliation Service), and updating the name to *Consumer and Conciliation Department*.

During 2016, the new Area carried out all the activities necessary for the profound changes expected as of 2017, such as the new 2017-2019 Single Project, approved by the Authority with resolution 727/2016/E/com, involving reorganisation of the structure and activities, adapting the skills of employees to carry out new tasks and adjusting processes, operational supports and systems.

At the same time, the Help Desk continued to serve as the reference point for domestic and non-domestic consumers of electricity and gas, offering valuable support in the quick and easy solution of disputes with operators and in the acquisition of the necessary information to know their own rights, facilitating the conscious choice of their energy supplier, reducing information asymmetries in the market, and making operational economies to the system, such as the reduction of litigation before the courts.

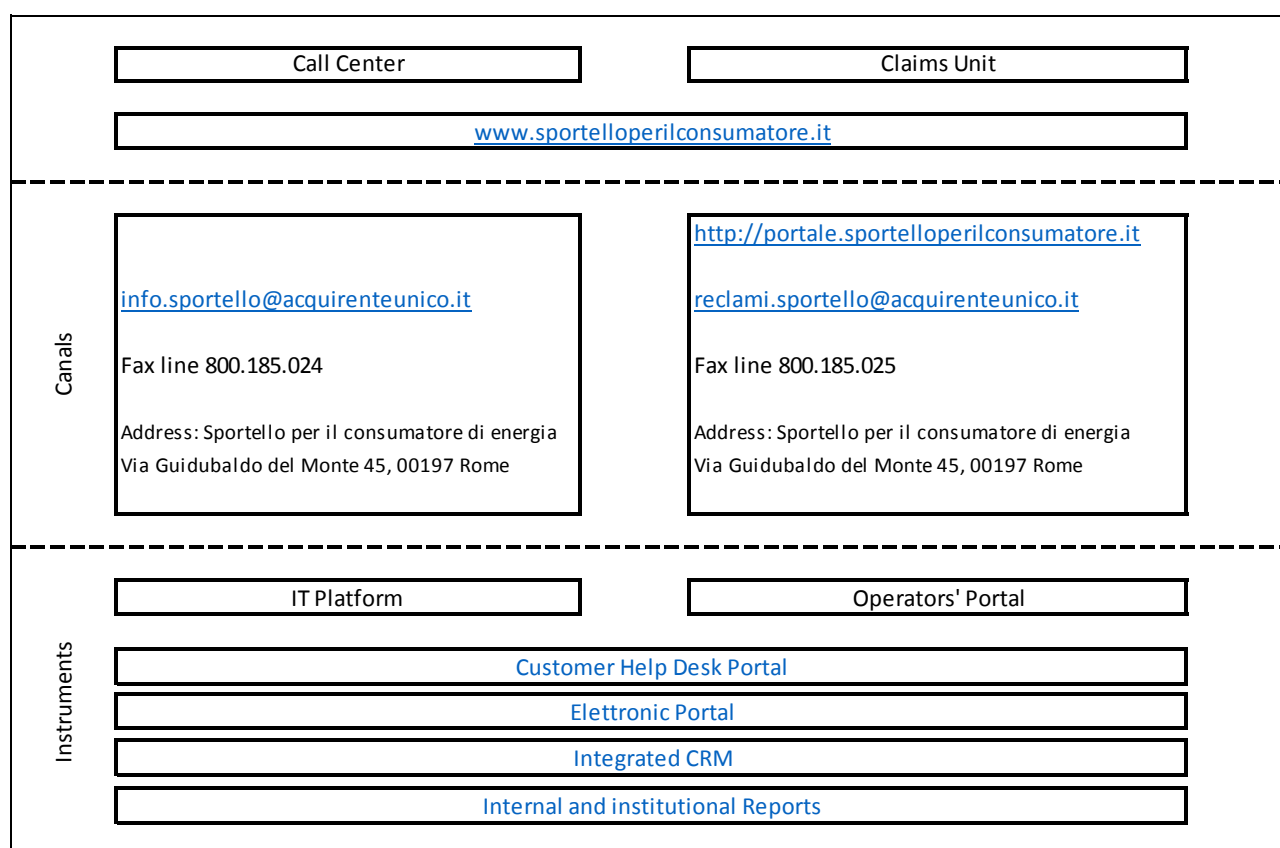
Through a preliminary investigation on complaints and reports from consumers following lacking or unsatisfactory responses from operators, the Help Desk also supported the Authority in identifying:

- misconduct and non-compliance with local regulations by one or more operators, providing all relevant information for the analysis of the situations identified and collaborating in the organization and closure of proceedings activated by it;
- integrations or changes in the regulation, in order to overcome the problems that emerged in the evaluation of the reports and/or complaints.

The service, offered *free of charge* to end-users, energy consumers-producers, consumer associations and other delegates, concerning complaints and requests for information on the electricity and gas market in terms of *Billing, Consumer, Contracts, Free market, Prices and rates, Connections/works, Electric and gas bonus, Gas insurance, Unsolicited contracts, Delinquencies sanctions*, replying to requests for information on settlement procedures made available to it both by the Authority (Energy Consumer Conciliation Service), and by other Bodies (e.g. joint settlements).

The schedule shown below indicates the organisational operation of the Help Desk in 2016, showing the tools and contact channels available to consumers and operators:

Chart 5: Organizational structure of the Help Desk



The service provided by the **Claims Unit** was evaluated based on a set of highly rigorous service levels (SLAs), agreed upon with the Authority and aimed at "measuring" case management times and the quality of actions activated through the Help Desk.

In the same way, the **Call Centre**, which manages the toll-free number +39 800 166 654, has to meet the SLAs established in ARG/com no.164/08, the Consolidated Text regulating the quality of energy and gas sales services (hereafter, TIQV), such as accessibility to the system, average operator waiting time and the level of service. This legislation, concerning companies providing the sale of electricity and gas, has been extended to the Help Desk with the aim of ensuring best practices are used. This represents a significant change in the way information services to the consumer are managed.

The Help Desk operated with utmost transparency, publishing the activities performed and results achieved on a quarterly basis on the website www.sportelloperilconsumatore.it and on the Authority's website.

In this context the Help Desk, through the efforts of a team of **120** employees supported by a Co-sourcer in the management of the call centre, has set up a set of organizational and technological skills and a deep understanding of the regulation of the sector and the management of relationships with all the players in the energy market.

In 2016 the Help Desk, strong of these skills and in close cooperation with the Authority and with the constant open discussion with more than **500** operators, has managed:

- **365,000** inquiries received at the +39 800 166 654 toll free number,
- **37,500** inquiries and reports sent by electricity and gas consumers and by consumer-producers of electricity, Associations and other delegates,
- **42,500** replies received by operators and customers or their delegates in response to requests made by the Help Desk to get the information useful for the evaluation of the various situations.

The Help Desk has today facilitated the resolution of around **265,000** complaints received from the beginning of its activity (**98%** of total requests received), and in a relatively short time, equal to an average of 40 working days in case of the need for response from one or more operators, which are reduced to **5** days if no response is needed for the handling of the case.

Over the last 7 years, the Help Desk has presented the Authority with monthly and quarterly reports, providing details on the results it has achieved and identifying proposals aimed at strengthening consumer protection.

The complaint management service is also subject to customer satisfaction surveys, completed by customers when the case is closed. The Call Centre is subject to assessment from the start through the "Let's put our face on it" protocol. The performances of the Help Desk are therefore fully monitored and the results made public on the Help Desk and Authority websites.

In 2016, 90% of consumers and 88% of operators who contacted the Help Desk used the **online** channel. Use of the online channel is obligatory for exchanging communications with operators through the Operators Portal (renamed the Operators/Managers Portal as of 2017) and for end customers through the Customer Help Desk Portal, which can be reached from the website www.sportelloperilconsumatore.it, with the exception of domestic users who do not make use of professional proxies or Associations.

The website allows the users of electricity and gas to find all of the information and forms needed to access the Help Desk services and to manage requests fully online, submitting complaints and requests for information, integrating the documentation and verifying both the relevant documents and the status of the complaint.

It is also to be noted the **reporting activity** carried out towards the Authority with the aim of identifying and promptly communicating the conduct of operators not complying with the applicable principles of regulation and rules. In 2016, the Help Desk provided the Authority with analysis and helpful information on billing and late fees (CMOR), both as part of the investigations on supplies of electricity and natural gas, and in the context of prescriptive and penalty provisions aimed at overcoming the violations committed by some of the major market players. Notifications coming from the Help Desk led to an information gathering study regarding billing by suppliers of electricity and natural gas to small customers and the adoption of prescriptive and sanction provisions relative to violations of contractual conditions for the supply of electricity and natural gas to end customers.

Note that the Help Desk supported the *"Telecommuting" company project*, which involved 25 employees from the Complaints Unit and Technical Secretariat in 2016, who provide their services through remote connection, 60 - 80% of the time. The initiative is seeing positive results both in terms of motivation and performance for involved employees.

Call Centre – Toll Free Number +39 800 166 654

The Call Centre provides free information on the opportunities and rights of the consumers in liberalized electricity and gas markets, on the procedures for obtaining social bonuses, on the conditions and the status of claims submitted to the Authority, on the two-tier prices and on gas insurance, the prosumer and on conciliation procedures offered both by the Authority and by Consumer Associations (joint settlement).

The average number of operators available to the Help Desk Call Centre amounted to 45 in 2016, divided between an internal team and one managed by a co-sourcer awarded the job through a three-year European tender.

In 2016, the Call Centre handled approximately **365,000** calls during service hours (8:00 a.m to 6.00 p.m. Monday-Friday, excluding holidays), down 12% compared to 2015, as a result of the reduction of the contacts relating to the complaints handled by the Help Desk as a consequence of the improved service levels of the Complaint Unit and the absence of radio or TV advertising campaigns by the Authority.

The Call Centre Help Desk achieved the following levels of service in 2016:

- 91% service level (operator responses/calls) vs. the 80% established in the TIQV;
- 100% service accessibility (telephone lines availability) vs 95% set forth by TIQV;
- 147 seconds average operator waiting time (including messages from the automatic answering system) vs 200 set forth by the TIQV;
- 95% of clients satisfied with the service received (“Let’s put our face on it” campaign of the Public Service Department) as a result of an evaluation expressed by approximately 50% of the consumers contacting the Toll Free Number.

It should be noted that the Call Centre has the important function of an incubator for the new resources of the Complaints Unit, with a view of contributing to a professional development and integration between the various Help Desk units and of supporting the development and implementation of the management IT systems.

Complaints

Complaints and **reports** from customers are entered, registered and classified by the Complaints Unit, which after creating the file, conducts the relevant investigation activities and submits the appropriate information requests to the operators involved until the matter has been fully resolved or a reporting has been sent to the Authority for the appropriate action.

The **Complaints Unit** operates through:

- *1 Secretariat*, which registers, creates the file and sorts the incoming documents;
- *5 Complaint Groups* formed of specialists in the various matters and coordinated by experts' resources.

In 2016, the **Secretariat** handled **143,200 documents** (new complaints, reports, information requests and responses customers/operators to Help Desk requests), ensuring that the complaints are registered and sorted into the different groups of complaints the same day they enter the Help Desk protocol.

In 2016, the 5 Complaints Group received **37,500 new complaints**, with a decrease of 6% compared to 2015 in consideration of the reduction of the faulty functioning of the marked evidenced in the previous year, particularly concerning the lack of coordination between the vendors and distributors data base in relation to the social bonus (consideration of the compensation in the invoice) billing (compliance with the periodical billing requirement) and issues relating to the change of the vendor (exact identification of the operator holder of the point of supply).

Also note that starting in December 2016, the Help Desk provided information to customers regarding regulatory changes, already outlined above, which will take effect as of 01/01/17, inviting them to make use of settlement if the complaints received were not compliant and complete. These activities had a significant impact on the decrease in volumes at the end of the year.

The year just ended also recorded **42,500 in returns** (replies by customers and vendors to requests from the Help Desk), with a decrease of 20% compared to 2015 in light of the lower number of cases compared to the previous year.

The Complaints Unit therefore analysed and managed a total workload of **80,000 documents** (new complaints and returns) to assist customers who requested support in 2016, who in **82%** of the cases expressed a positive review on the service received.

Quality System

The Help Desk Quality System monitors the qualitative service levels of the Help Desk operations, establishes and updates the operating procedures and tools, manages the training efforts required to upgrade the skills of the Help Desk staff and executives of the main Consumer Associations. It also implements special projects aimed at improving the relations with the external parties (Authorities, Consumer Associations, vendors, etc.) and the application of the Help Desk Regulations. In 2016, activities of particular importance were:

- updating of the Operators/Managers Portal, in compliance with resolution 383/2016/E/com;
- follow-up on consultation with the Authority regarding consumer protection (e.g. DCO 225/2016 Reformed Protection System);
- training sessions to upgrade the skills of Help Desk personnel and the executives of the main Consumer Associations on implementation of the principal changes in the Help Desk and settlement regulations.

Energy Consumer Conciliation Service

The conciliation procedures within the Service are mainly carried out online with no costs for the end user, in the presence of a specifically trained mediator made available by the Service free of charge, in compliance with the European regulations on energy and alternative dispute resolution (ADR).

The service operates under the supervision of a manager and the support of five employees in the Secretariat employed by AU, as well as 28 conciliators selected through agreements with the Chambers of Commerce of Rome and Milan.

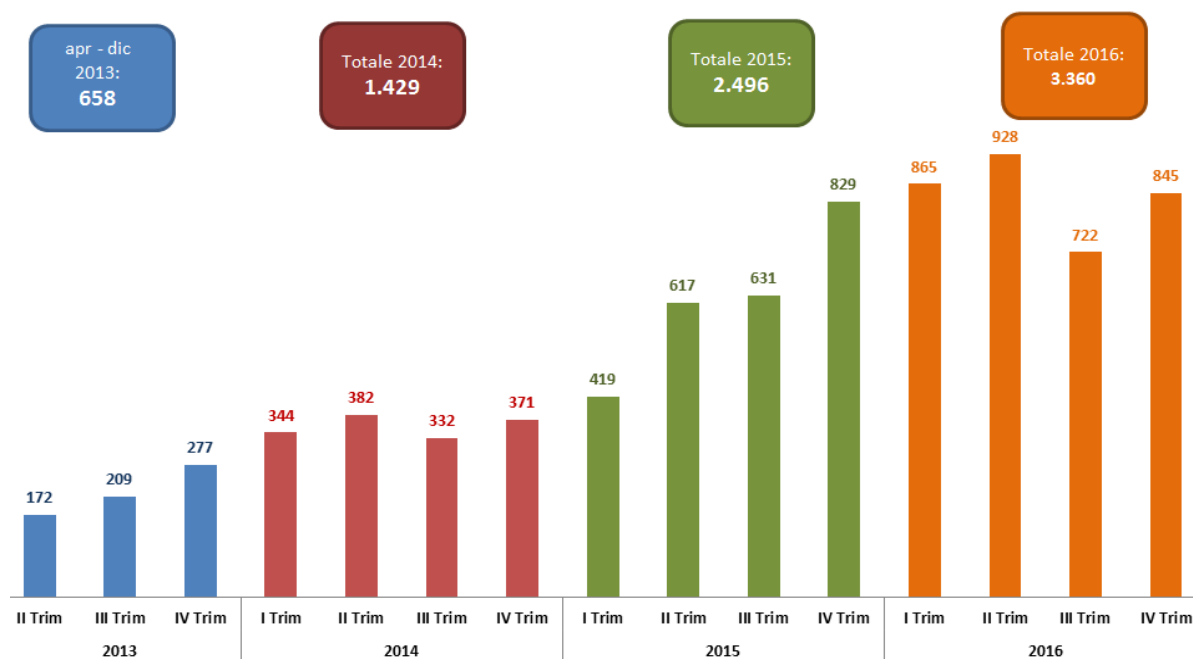
The Secretariat, under the supervision of the manager, deals with the organizational aspects of the service, approves the access of the operators to the IT conciliation platform (with more than 80 operators accredited and operating online at the end of 2016), and periodically reports to the Authority and the Electricity Industry and the Fund for the Energy and Environmental Services, in addition to those specifically requested from the Associations or the operators.

The Service also has the duty to train/update the conciliators, structure the proceedings and the documents for case management and to optimise the online settlement platform.

In 2016, in light of its introduction in the ADR list, the Service has activated off line access to its procedures and an English version of the website.

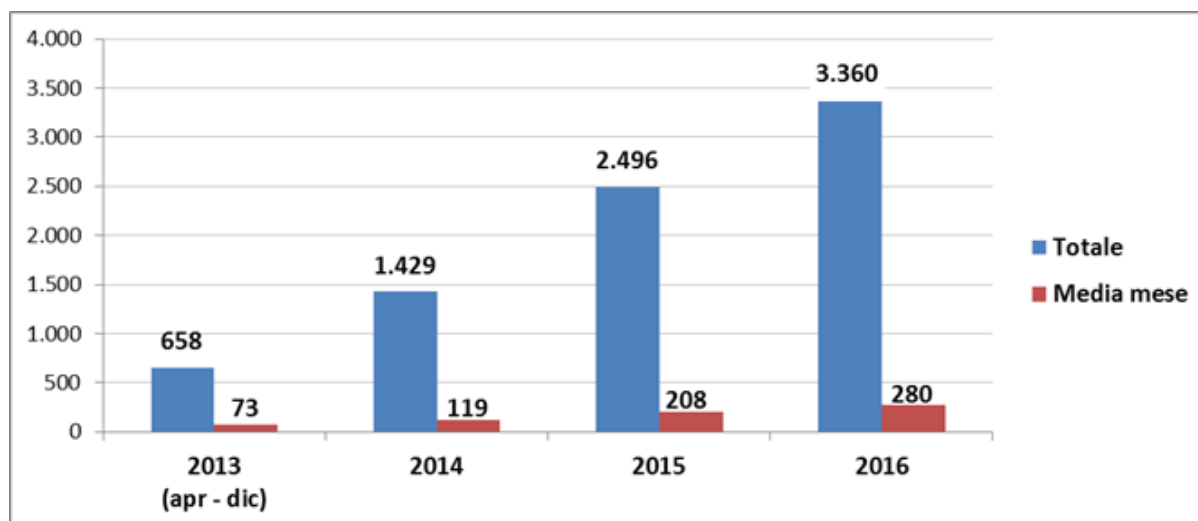
Below is a summary of the volume and outcome of the conciliation requests received by the Service from April 2013 to December 2016:

Chart 6: Service Volumes 2013-2016 – Quarterly Performance



Source: Acquirente Unico

Chart 7: Service Volumes 2013-2016: total/year and monthly average

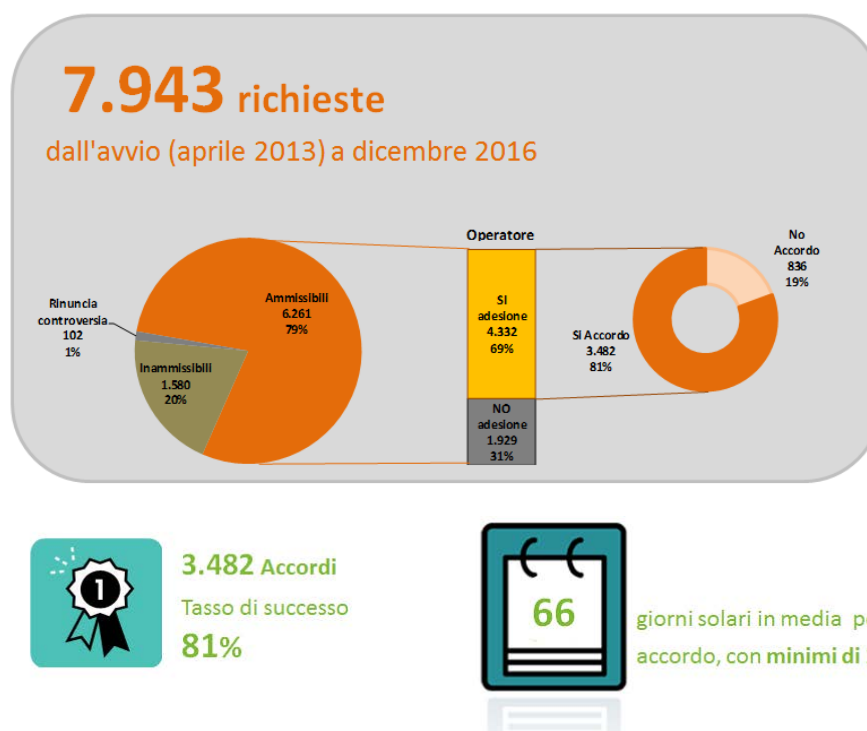


Source: Acquirente Unico

In 2016, the Service received 3,360 settlement requests, a 35% increase with respect to the previous year. Initial data from 2017 confirms a strongly upward trend, with over 400 applications received as of 20 January.

Source: Acquirente Unico

Main results for the Service 2013-2016



With more than 3,482 agreements concluded since start up, the Service has an 81% success rate (percentage of cases ended with an agreement, taking into account the percentage of cases allowable with consent to adhesion), an average of two months to complete cases, and minimum times of less than two weeks (11 calendar days).

Integrated Information System

Context

The liberalisation of the energy sector, separating distribution and sales roles, led to the creation of new operators who need to exchange a large amount of information with each other in a systematic manner. In the electric market alone, over 40 million transactions are estimated per year, in which delays, errors, differences and inconsistencies cause higher operating costs and produce inefficiencies and malfunctions in internal operator processes, which inevitably have an impact on end customers.

In 2016, the number of operators working on the retail market for both the electric and gas industries was substantially unchanged with respect to the previous year: electricity operators totalled just under 500 (including distribution companies, dispatch users, enhanced protection service operators, sellers, and Terna) and gas had around 750 operators (including distribution operators, transport operators, distribution users and sales companies).

The number of active users in both sectors remained substantially stable:

- a slight decrease was seen in the electricity sector, going from 37 million powered delivery points at the beginning of the year to 36.86 million supplied in December
- in the gas sector, the number of active users rose slightly, going from 21.58 million active delivery points at the beginning of the year to 21.62 million active points in December.

Processing of the data handled by the IIS in the Official Central Register shows a progressive increase in electricity supplies active on the open market, going from 13.46 million at the beginning of the year to 14.52 million in December, corresponding to the decrease in supplies provided through the Enhanced Protection Service, which fell from 23.6 to 22.34 million.

The increase in the information available as of July 2016, after the IIS began to manage processes associated with supplier switching, allowed for more detailed analysis of changes in usage in relation to the market of provenance.

The table below provides details about changes in usage following switches in the second half of 2016.

Table 13: Changes of users

	July	August	September	October	November	December	Total
From open market to open market	313,159	227,119	292,804	210,711	155,004	183,712	1,382,509
From EPS to open market	123,123	112,689	98,794	105,490	89,400	107,647	637,143
From open market to EPS	12,851	15,255	3,711	6,901	7,964	7,622	54,304
Total supplier changes	449,133	355,063	395,309	323,102	252,368	298,981	2,073,956

The table below provides details about last resort activation following contractual terminations communicated by sellers, with respect to which the end customer did not select a new supplier.

Table 14: Changes of users

	July	August	September	October	November	December	total
Last Resort Activation	738	1,272	1,276	1,123	941	1,732	7,082
Enhanced Protection Activation	9,474	9,116	9,870	15,687	12,091	7,741	63,979
Total last resort activations	10,212	10,388	11,146	16,810	13,032	9,473	71,061

During the second half, transfers from the free market service to the enhanced protection service totalled just under 120,000 users.

In 2016, the most significant developments in IIS activities included:

- extension of the information contained in the electrical RCU;
- the start up of switching process management, that is changes of supplier associated with an electricity delivery point;
- extension of electricity consumption measurement data acquisition to points not dealt with on an hourly basis;
- implementation of Similar Protection, with the context of the reform of price protection mechanisms on the market for domestic customers and small and medium enterprises;
- implementation of procedures to apply the television fee to electricity bills;
- the start up of management of flows used in monthly settlement and transfers in the gas sector.

Again in 2016, during implementation of the new processes close cooperation with the Authority continued when standardising flows and re-engineering the processes in question.

Electricity Industry

Electricity sector processes managed by the IIS increased significantly over the course of the year:

- Extension of the *information found in the RCU*, implementing resolution 628/2015/R/eel. The data handled have been significantly extended so as to more effectively manage the functions supporting the new processes envisaged in the development plan established by the Authority. Since March, the additional mass data provided by distributors and their commercial counterparties has been obtained and processed monthly. Since October, updates are managed based on specific notifications received from operators, within 2 days of each event;
- Implementation, through the IIS, of processes relative to supplier switching, implementing resolution 487/2015/R/eel, 73/2016/R/eel e 208/2016/R/eel. With the reform of the switching process, the project to automate sales processes through the IIS originally planned by the Authority for the electricity sector is complete. Reform of the switching process through the IIS is fundamental for transparency and efficiency in the functioning of the market, as well as for making it possible to carry out a supplier switch in less than three weeks, so as to fully comply with the European directive on the subject. As of 1 June, processes functional to supplier changes, including contractual termination and last resort service activation processes, have been officially and exclusively managed within the IIS. Additionally, implementing resolution 73/2016/R/eel, automatic management of massive switching in the case of termination of a transport and/or dispatch contract has been implemented. Since July, an average of 450,000 cases have been handled relative to supplier change requests.
- Extension of acquisition of *electricity consumption measurement data* for points not dealt with on an hourly basis, implementing resolution 628/205/R/eel. Since February, the IIS acquires consumption measurement flows from distributors on a monthly basis, relative to the previous month, for all powered delivery points (hourly or not) found in the RCU; around 40 million monthly measurements are handled, also including adjustment flows relative to these measurements. With regards to points handled on an hourly basis, as provided for in resolution 640/2014/R/eel, the IIS receives the measures taken the previous month each month, with detail down to each quarter-hour, for each of the 300,000 points involved.

- Implementation of *Similar Protection*, pursuant to resolution 369/2016/R/eel. In accordance with the schedule envisaged in the cited resolution, the Operating Rules were defined, approved by the Authority with resolution 541/2016/R/eel. Following the methods and schedules established in the cited resolutions, electricity sellers who can operate as "Suppliers" for the Similar Protection service have been certified by a specific Commission appointed by AU. At the same time, consumer associations and small and medium companies that can operate as "Facilitators" relative to final customers have been accredited. During the last quarter of 2016, the central website for Similar Protection was completed and applications for integration with the IIS were developed. As of 1 January 2017, as established in the resolution, the Central Site and Similar Protection management system were operational within the IIS.
- Procedures for application of the *television fee in the electricity bill*. Implementing that established in the 2016 Stability Law, the following items were ensured:
 - cooperation with the MISE, MEF, Revenue Agency and AEEGSI in defining the implementation rules, issued with Decree 94 of 13 May 2016;
 - definition of technical specifications to transmit the list of supplies which can be charged (article 3 of the cited Ministerial Decree) and refunded (article 6 of the cited Ministerial Decree), approved by the AEEGSI;
 - definition of the understanding between the Revenue Agency and AU, signed on 18 May, relative to aligning residence data for domestic utility supplies with the D3 tariff prior to 2016, as well as the understanding, signed on 3 August, for management of accounting and refunds;
 - execution of the IT procedures necessary to manage that established in the implementation decree, the AEEGSI resolutions and the understandings and provisions relative to the Revenue Agency.

In May data was aligned with the Revenue Agency to verify residency relative to the domestic utility supplies indicated in the Ministerial Decree. Since July the IIS has processed on a monthly basis, for each seller, a list of the points where the fee is to be applied and the relative portion, involving an average of 22 million domestic utility supplies. Since September, accounting flows of chargeable amounts have been produced and sent to the Revenue Agency. The sellers' obligation to apply the fee, together with implementation of Similar Protection, led to an increase of the number of counterparties accredited by the IIS and proper association

with the delivery points they operate with. At the end of 2016, all sales companies operating in the electricity sector were accredited as commercial counterparties, totalling 417.

Additionally, management of activities begun the previous year continued, as detailed below:

- Management of the Official Central Register (RCU); the Register collects official data relative to all energy delivery points installed on distribution networks connected to the Italian transport network: around 44.4 million delivery points counted, of which around 7.5 million points not energised.
- Management of information flows relevant to balancing the network and forecasting consumption (settlement), begun with resolution 57/2013/R/com. The activities include monthly management of identifying information for delivery points served on the open market and adjustments to mistakes in attributing delivery points to dispatch users by distributors, as governed by resolution 308/2013/R/com, as well as managing half-yearly adjustment of data regarding area deliveries.
- Daily acquisition of activation request results, contract deactivation and termination due to arrears for delivery points coming from distribution companies, with simultaneous of the RCU, as envisaged in resolution 82/2014/R/eel. On the whole, an average of 13,000 changes were handled daily.
- Provision of the Precheck service, governed by resolution 2/2014/R/eel. An average of around 20,000 queries were sent by sellers each day to verify a match between the POD and the identifying information for the end consumer owning the delivery point in the RCU.
- Management of the transfer process, implementing Resolution 398/2014/R/eel and subsequent resolution 161/2015/R/eel. These activities were begun in November 2015 and involve management of around 120,000 transfer requests per month.
- Management of the Indemnity System. 333,370 new indemnity requests presented by outgoing operators were processed in 2016, as well as activities involving cancellation, accounting and changes to around 226,000 cases opened in 2015. Additionally, spot checks were performed to check the accuracy of the data declared by operators.

Gas Sector

In 2016, management of the updating of the GAS RCU continued, as well as accreditation of commercial counterparties, in order to continue the extension of the pre-check service and the re-engineering of the switching process to the gas sector, similar to that already implemented in the electricity sector.

IIS accredited companies operating in the gas sector include 10 transport companies, 217 distribution companies, 264 distribution users and 283 sales companies.

Within the GAS RCU the approximately 25 million delivery points (of which an average of 21.6 active and 3.5 actionable) are updated with a frequency of around 14,000 changes per day, received from distributors following activation, deactivation, transfer and switching operations and amending identifying data for delivery points.

Relative to the gas sector, development activities in 2016 focussed on the following processes:

- Management of *settlement flows* (TISG), implementing resolution 418/2015/R/com. During the initial part of 2016 software applications were created and tested and, after three months of operating in parallel, as provided in the resolution, as of July 2016 the IIS provides official management of the relative flows. Additionally, implementing resolution 312/2016/R/gas, relative to gas balancing and in implementation of EU 312/2014, as of 1 October 2016 the IIS, by the end of each month, publishes the sum of the annual deliveries associated with each delivery point on the distribution networks, aggregated by delivery point on the transport network and detailed by the standard delivery profile type;
- Management of *gas switching*, implementing resolution 102/2016/R/com. The software applications created began operating in parallel in September. In October and November functional checks were carried out with operators, involving gas distributors, with coverage of around 75% of delivery points and sellers, with coverage of around 60% of users. As of 1 December, in compliance with the resolution, the new processes began operations.

Other activities

In 2016, in its role as Manager AU provided the necessary technical support to the Authority in defining development guidelines for processes to be managed through the IIS. This support involved the issuing of the following deeds:

- Resolution 73/2016/R/EEL, relative to management of transport and dispatching contracts through the IIS;
- Consultation document 75/2016/R/eel, relative to implementation of *Similar Protection*, in the context of the reform of price protection for the retail energy market;
- Resolution 100/2016/R/com, relative to the issuing of closure invoices after termination of electricity or natural gas supplies and monitoring of the same. The resolution introduced the possibility of processing self-meter readings provided by customers to the switching processes;
- Resolution 102/2016/R/com, relative to the new switching regulations for the gas sector, by using the IIS in a manner analogous to the electricity sector;
- Resolution 208/2016/R/eel, relative to changes and regulatory simplifications completing the reform of the switching process with the IIS;
- Resolution 312/2016/R/gas, relative to gas balancing and implementing EU 312/2014. The resolution establishes that starting 1 October 2016 the Manager of the IIS, by the end of each month, shall publish the sum of the annual deliveries associated with each delivery point on the distribution networks, aggregated by delivery point on the transport network and detailed by the standard delivery profile type;
- Resolution 358/2016/R/eel, which assigns the IIS the responsibility to aggregate delivery measurements for the purposes of settlement, with reference to electricity delivery points processed on an hourly basis;
- Resolution 369/2016/R/eel, which reforms the current market price protection mechanisms for domestic and small business customers in the electricity sector and establishment of similar protection for the free market.

Additionally, activities continued relative to operating management of technological infrastructure and software applications created to provide services, ensuring operations for all accredited operators in both sectors. During 2016, end users active on the IIS web portal rose from 2,350 to 4,000. Additionally, another 18 communication ports were certified and rendered operational, added to the 22

activated in 2015. In this way, all the main users accredited with the IIS were connected in the advanced method.

Retail Market Monitoring system for electricity and natural gas

“Retail Monitoring” activities continued in 2016 within the context of the Integrated Information System (IIS), which operates under an avallment contract on behalf of the Authority.

This area supports the Authority in the operational phase of collecting basic data and serves as a technical interface vis-a-vis the operators required to participate in the retail monitoring system.

Costs related to the activity are managed independently from the Integrated Information System with an appropriate cost centre.

16 data collections were managed in 2016, in order to observe non-payment phenomena, the Default system, the supply of the last resort service, switching closing invoices and economic renegotiation, in both the free and protected markets.

In 2016, data validation controls were strengthened and extended relative to data collection assigned to AU and support activities directly provided by internal AU resources were expanded, to identify specific phenomena, including subsequent processing and investigations with involved subjects. Additionally, support was provided to the Authority in preparation of the 2013, 2014 and 2015 retail market annual report.

Italian Central Stockholding Entity - OCSIT

During the first months of the year, OCSIT concluded a series of activities to discharge its obligations relative to the third stock year, in relation to which the Ministry of Economic Development (MED) planned an acceleration in the business plan in October of 2015, involving the acquisition of an additional stock day (around 100 kT of product), with respect to the two days envisaged, to be carried out by 1 April, the first day of stock year 2016-2017.

In the month of February 2016, the actual costs incurred by OCSIT in 2015 (so-called final balance) were communicated to MED, necessary for determining the amount of the balance of the adjustment contribution due by the economic operators. The final balance showed, for the third year in a row, total costs lower than those planned in the budget. In detail, the actual costs amounted to € 7,824 thousand, compared with an estimate of € 11,835 thousand, showing savings of 34%. The difference was reimbursed to the operators in November 2016, at the time of the adjustment, following approval of the interministerial decree on the 2016 contribution determination.

The Ministerial Decree of 3 March 2016, which confirmed 1 April as the start date of stock year 2016/2017, established the total amounts for emergency stocks and specific stock to be held by the system during the year, subdividing the holding requirement at 6 (six) days for OCSIT and 24 (twenty four) days for the economic operators.

In the months immediately prior to the start of the stock year, tenders were issued to obtain storage capacity and to acquire products, with operators already qualified as suppliers of storage capacity and products invited to participate.

The conclusion and awarding of the tenders took place in advance of the scheduled date of April 1, the day when OCSIT fulfilled its obligations to hold a total of 628,999 tons of products.

Purchases made during the year relative to the 3 stock days in question concerned 315,516 tons of petroleum products, broken down and placed as follows:

- 214,648 tons of gasoil, of which 40,000 in Volpiano (TO), 648 in Cremona and 174,000 in Gaeta (LT);
- 60,335 tons of gasoline, of which 55,335 in Volpiano (TO) and 5,000 in Cremona;
- 30,153 tons of jet fuel, in the Gaeta (LT) depot;

- 10,380 tons of fuel oil, of which 8,000 in Busalla (GE), 1,000 in the Cassina de' Pecchi (MI) depot and 1,380 in Sarroch (CA).

Relative to insurance of these products, new purchases also fall under the coverage of the all-risk policy stipulated by OCSIT, expiring on 31 March 2018.

Payment of petroleum products purchased in 2016, amounting to € 111.8 million, was covered through the use of residual funds deriving from the granted loan contract signed in June 2014, for the initial amount of € 300 million.

Also taking into account € 74.2 million paid for the purchase of the first stock day and € 110.6 million for the additional two days, the total expense sustained by OCSIT in the three years period 2014-2016 for the six stock days amount to € 296.6 million, with optimal usage of the resources obtained with the initial loan, equal to around 99%.

With an eye to obtaining the funds necessary to carry out the business plan, at the beginning of August OCSIT began a new European tender for a granted loan contract, following the same structure as the previous one.

The characteristics of the loan, which should be signed by the end of March 2017, so as to fulfil all the stock year obligations which will presumably begin on 1 April 2017, will be:

- 1) Amount: up to a maximum of € 400 million (so as to make purchases for approximately another 8 stock days, or around 840 kt);
- 2) Duration: 5 years;
- 3) Rate: variable (spread + Euribor 6 month);
- 4) Type: "bullet", with repayment of capital at maturity.

In early September, also, OCSIT attended the annual meeting of ACOMES, the association of the Central Stockholding Agencies of the World, during which the "best practices" in relation to some of the issues in the sector were shared.

On 10 October, as usual the Consulting Committee met with economic operators. During the meeting certain important issues were discussed, including the revision of the framework contract and information about the anticipation of tender procedures relative to supplies, as well as storage capacity for oil products. At this time, information was also provided about OCSIT's financial situation, in particular with reference to budget forecasts and methods of obtaining resources over the short and

medium-term, as well as substantial regularity in terms of the payment of contributions by the operators.

Publication of the Inter-ministerial Decree in the Official Gazette on 13 October made it possible to proceed, on one hand, to returning the balance relative to 2015 and, on the other, to monthly invoicing to operators of the advance on the 2016 contribution. Both the restitution process and collection of the contributions were performed regularly within the deadlines established in the decree, allowing OCSIT to regularly collect the monthly installments for the period from April to November, by the deadline of 31 December 2016.

Also in October, the Ministry of Economic Development approved OCSIT's proposal regarding acceleration of the business plan, consisting in the purchase of 4 additional stock days for stock year 2017/2018, two more than initially planned. This change will make it possible to hold stocks of owned oil products equivalent to 10 days, for a quantity of over 1,000,000 tons.

Numerous advantages can be derived from accelerating the business plan: for OCSIT it is expedient to take on debt and purchase stock at a time in which interest rates and oil prices are at historically low levels, and for operators a release of larger than expected stocks is more than welcome.

As established in the already cited official guideline, in article 2, paragraph 1, by the deadline of 30 November OCSIT communicated its forecasts of costs and charges relative to financial year 2017 (2017 Budget) to the Ministry of Economic Development's General Directorate for Security of Supply and Energy Infrastructure. The Budget was approved in advance by the Board of Directors of Acquirente Unico Spa at its meeting on 28 November 2016.

As part of the continuous dialogue that the Body has had, during the year, with the Financial Administration Offices, the following is noted:

- The Customs Authority was informed of the changes made in the quantities held at the various Italian fiscal depots following the purchases for the new stock year, for the purposes of exemption from excise duty associated with oil products;
- a request for a ruling was sent to the Revenue Agency, aimed at sharing the methods used to calculate financial expense deductible from corporate taxes, in the light of the regulations establishing OCSIT and the implications of the same.

From an industrial point of view, in December preliminary activities were undertaken relative to operations that will be implemented in stock year 2017/2018. Among these were:

- obtaining storage capacity;
- acquiring additional oil products for specific stocks;
- the release of the new OCSIT website (including the English version);
- the evaluation of bids received as part of the tender for the new loan, in view of the awarding planned for January 2017.

Summary of investments in oil products

The table below shows the valuation of stocks in the balance sheet at 31.12.2016, separately by type of product supplied and held, with the indication of the relative quantities according to the tax records.

Table 15: Stocks of petroleum products as at Dec. 31, 2016

PRODUCTS	QUANTITY (Tonnes)	VALUES (euro)
GASOLINE	123,962	67,291,109
GASOIL	426,507	195,733,802
JET FUEL	59,726	28,426,219
FUEL OIL BTZ	18,804	5,140,836
TOTAL	628,999	296,591,966

OTHER CORPORATE ACTIVITIES

Human Resources

In 2016, the management and development policy of the personnel of Acquirente Unico set the following goals:

- achieve programs to retrain personnel, to provide the organisation with skills and tools in line with the development in the activities it carries out;
- strengthen growing business areas through an internal transfer programme, supporting synergy between the interests of individuals and company requirements.

The internal transfer programme was mainly begun to satisfy the development requirements of the Integrated Information System.

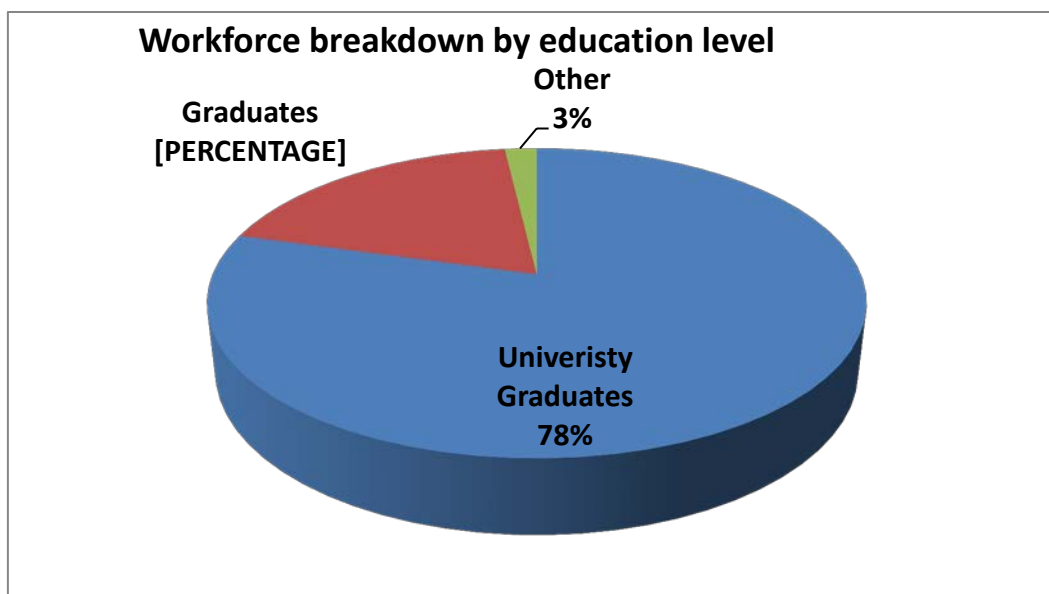
It was carried out through a program to improve efficiency in the Consumer and Conciliation Area, affected by significant regulatory reform. In total, this program involved 11 employees.

Workforce development

In 2016, there was a decrease of 4 units in terms of employees (both permanent and contract), going from 213 at 31 December 2015 to 209 at 31 December 2016.

This decrease was due to natural turnover. Overall, the composition of AU's workforce at 31 December 2016, as compared to 2015, shows substantial stability in the presence of university graduates, who represent 78% of company workforce (i.e. holders of bachelor's and master's university degrees).

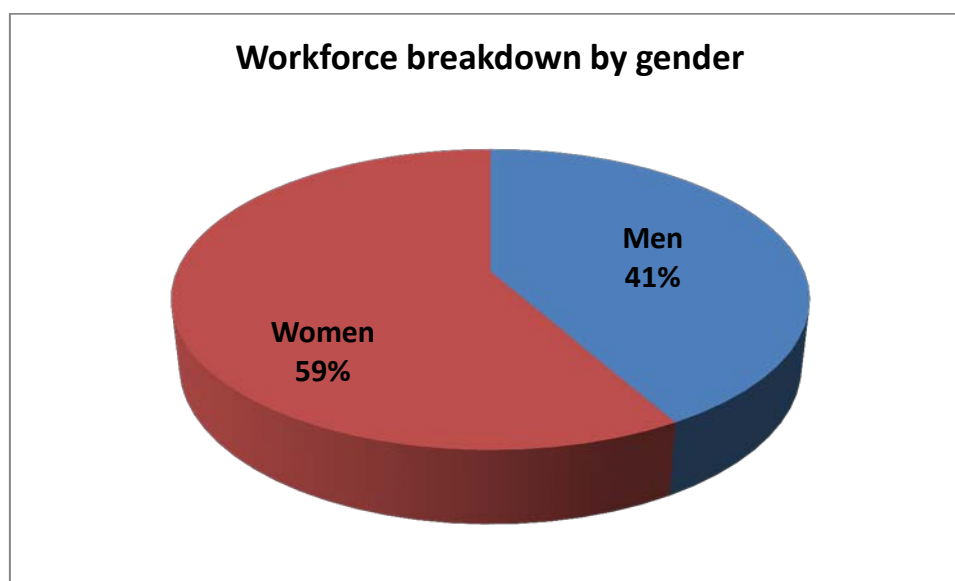
Chart 8: Workforce breakdown by education level



Source: Internal processing, Acquirente Unico, at 31 December 2016

Additionally, in 2016 the Company maintained a stable positive relationship of the presence of the female component on the male component, as shown in the table below:

Chart 9: Workforce breakdown by gender



Source: Internal processing, Acquirente Unico, at 31 December 2016.

Training to support skills development

The training plans carried out in 2016 dealt with topics relative to Legislative Decree 231/01 (Corporate Liability), Legislative Decree 81/08, as amended, (Workplace Health and Safety), Legislative Decree 196/03 (Privacy) and that established in Law 190/2012 and Legislative Decree 33/2013 (Anti-Corruption and Transparency).

All of the above courses were provided through e-learning. This didactic method also featured interactivity. In fact, testing and evaluation games were provided, all along the training classes and, for the Safety classes, final verification tests were carried out at the presence of the participants.

The training initiative involved all Company employees with an average attendance rate of 90% relative to all training provided.

Additionally, a Civil and Commercial Mediation training course was organised, serving as the foundation for issuing of the associated certificate. The course served the need to requalify staff in the Consumer and Conciliation Department, following regulatory changes which affected this area.

Note that all employees involved in the training initiative obtained an Arbitrator certificate.

Corporate Information Systems

Energy Area

During 2016, the "Energy Retail" IT platform, used to manage electricity purchase contracts, was strengthened through the introduction of a new software module needed to participate in the daily products (MPEG) market, managed by GME digitally.

The creation of the new module allows AU to make use of a fully integrated tool to manage operational workflow for proposing, validating and approving bids for the MPEG market, as well as administering the relative contracts.

Of the two types of daily products sold on the MPEG, in this initial phase only bids for the "price unit differential" product relative to the SNP were implemented.

Creation of the new module was completed in December 2016. The completion of accessory functions is planned for 2017, which will be useful in automating transactions on the new market.

Implementing the provisions of European Regulation 1227/2011, regarding integrity and transparency in the wholesale energy market (REMIT), during the year AU adapted its systems to fulfil the obligation of sending data regarding its own purchases and sales orders presented and transactions completed to ACER (Agency for the Cooperation of Energy Regulators).

To that end, the functions needed to use the service made available by GME through the Data Reporting Platform have been integrated into the Energy Retail system. This service consists in preparing and then sending to ACER, in the required format, reports containing data about orders presented and completed on the markets managed by GME.

In the area of consumption forecasts and electricity prices, many interventions of evolutionary maintenance on the application supporting these activities were carried out.

During the first months of the year, a technical-infrastructure project was completed with the aim of unifying the demand forecast and SNP applications which, having been created during different periods, were on separate systems. This made it possible to render the software versions used uniform and allowed users to access the applications in a unified manner, so that roles and access rights to individual applications could be defined in a centralised manner.

In March a project involving workflow for forecast generation was completed, initially begun in the final months of 2015. The purpose was to support the generation of demand forecasts with the use of

reports to provide a historical log of the conditions under which final forecast decisions were made (weather data and input conditions for the decision making process).

Additionally, a study was carried out on factors to be used to identify possible critical situations such as, for example, those occurring in the summer of 2015. Based on this study, ad hoc forecast models were developed and implemented for the summer period and indicators of weather anomalies were configured.

In regards to management of company processes, in the first months of 2016 a project was completed to automate and digitalise the process to approve payment of invoices due.

The web application, created by employees of the IT Systems Department, with the assistance of the Administration, Finance and Control Department, allows the AFC Department to send invoices awaiting approval to the relevant departments, allowing the latter to generate the relative approval (CMD) by completing a web form. Finally, it allows Directors/Managers to approve payment of the invoice by affixing a digital signature to the approval form.

The system, which began operating on a trial basis in November 2015 only for IT Systems invoices, was progressively expanded throughout 2016 to all company departments.

Additionally, in cooperation with the parent company GSE, integration between this application and the ERP accounting system was achieved in September, making it possible to associate the approval generated by the AU application when the supplier invoices are registered.

Integration between the two systems will allow for automatic production of the annual reports required for ANAC and information relative to purchase orders and liquidation of the associated invoices.

Consumer and Conciliation Area

During 2016, the Consumer and Conciliation Area began an in-depth revision of the IT systems supporting its activities, in preparation for the transformation planned by AEEGSI for 2017 relative to protection of final customers in dealing with complaints and settling disputes with electricity and gas operators.

The largest project involved the creation of an IT platform to manage settlement cases.

The Energy Consumer Conciliation Service, established by the Authority with resolution 260/212, was begun by AU in 2013. The resolution, in addition to approving the regulations for initial implementation of the service, specified that the settlement procedure would be entirely digital.

The study performed in 2012 regarding IT tools on the market that provided in an integrated manner both tools for management of case documents and those to carry out settlement meetings through a video conference system led to the identification of a service offered by an external provider as the best solution for start up of the service, as it required low initial investment, extremely low annual fees and guaranteed very quick start up times. This allowed the AU Settlement Service to manage almost 8,000 settlement requests between 2013 and 2016.

The new Authority regulations on out of court settlement of disputes falls within this structure which establish, as of January 2017, that electricity and gas customers must obligatorily make exclusively use of the settlement process to resolve unsettled disputes with operators at the level of complaints. Therefore, an attempt at settlement is an essential condition for proceeding to the ordinary courts, with the agreement document between the parties being enforceable.

Based on these regulations, forecasts of a significant increase in the number of settlement cases to be managed each year starting in 2017 led to the determination that the current system was not adequate to handle expected volumes, as the maximum number of cases it could handle each year could not exceed roughly 3,600.

Therefore, at the beginning of 2016 activities were begun to create a new IT platform. A technical document for the tender was prepared, which indicated the requirements for the new system and described, based on experience, the functions of the various modules that would make up the new platform: the document system for case management, workflow module for operating processes, service for audio/video conferences in virtual rooms, use of "one shot" digital signatures to sign agreements, the text messaging service to provide appointment reminders and replacement filing of case documents using CAD rules.

On 18 May, the European tender procedure was begun to select the supplier and it was completed on 7 October. Therefore, the project to develop the Settlement Platform was begun, which provides for full operations and replacement of the current system in the first half of March 2017.

Revision activities for Consumer Department applications also involved the website of the Consumer Help Desk and the Customer Portal, created in 2015 to allow electricity and gas customers to start a complaint case and observe its progress in a fully online manner.

Between August 2015 and December 2016, the Customer Portal saw almost 12,000 users access it, beginning more than 14,000 complaint cases through more than 90,000 individual accesses of the Portal.

The Portal was involved in significant changes, above all in the web forms used to present cases, ranging from models to present complaints, to forms to provide notifications, request information and support for specific issues such as the electrical bonus, double billing, unrequested contract, etc.

The reform of the protection system introduced by the Authority also involved an in-depth revision of the Help Desks' website with the objective of informing and guiding users in properly presenting notifications of requests for settlement or information.

The new Help Desk website and the Customer Portal were completed at the end of December 2016 and began operating on 1 January 2017.

An additional project involving the Customer Portal will be necessary in 2017, at the same time as the new Settlement Platform is released for operations. In fact, the Authority's resolution establishes that energy customers shall have a single access point for settlement services and information/notification services. Hence, the Customer Portal and Settlement Portal must be integrated, to allow registered users to access both portals with the same credentials.

The Operators Portal, to be used for automated information flows between the Help Desk and electricity and gas operators also underwent changes, although more limited, relative to the new regulations.

Additionally, in the settlement area an application to support invoicing for conciliators was completed in 2016. To standardise the invoices issued by conciliators for their professional services, employees of the IT Systems department, cooperating with the Administration, Finance and Control department and the Settlement Service, created a web application that allows conciliators to digitally issue an invoice for cases concluded and authorised by the Settlement Service. The application assists the conciliator in creating the invoice and then digitally sending it to AU, also providing the possibility of monitoring payment status. The application is also integrated with the ERP accounting system so as to fully automate the process of registering conciliation invoices and recovering payment data.

Italian Central Stockholding Entity (OCSIT)

During 2016, management and development maintenance of the IT applications "i-Sisen" and "Scorte" continued, which are respectively used for statistical analysis of energy transactions within Italy and for sector operators to communicate required stocks to the Ministry of Economic Development.

The Ministry of Economic Development had requested these changes to adjust the statistical reporting models, improve and implement functions for operators and to enrich the reports and data extraction functions.

In the statistics area, new functions were analysed to record the prices for oil products. This was a new block to be inserted in i-Sisen, for which the greater difficulty in terms of integration was represented by certain differences in the form of detection with respect to the application standard (weekly validation requirement rather than monthly).

Also within i-Sisen, new inter-questionnaire controls between petroleum and refining were created, so as to create an integrated process for qualitative and quantitative validation of the data inserted by companies. Additionally, to properly verify forecast data relative to the Consumption meeting for a given month, a check was implemented using the model presented after the meeting and relative to the same reference month.

In the Stocks application, certain change requests involved the handover functions.

In particular, a method for creating and validating a handover was analysed, differentiating between user and BackOffice profiles, with only the latter granted the possibility to take action after the handover deadline decreed annually by the Ministry of Economic Development.

Also relative to handovers, a new function was created to allow subjects required to pay the OCSIT contribution to handover all or part of their obligation to another subject which already has OCSIT obligations.

Other development additions regarding Stocks involved the possibility of creating communications on the international circuit on the basis of bilateral agreements among EU member states and providing operators with the opportunity to cover their stock requirements on holidays on the next business day, by modifying the relative communication workflow.

In the area of specific OCSIT processes for the procurement and management of stockholding capacity and the purchase of oil products, during 2016 personalisation and creation of new functions continued on the Oracle JD Edwards Enterprise One platform.

More specifically, in the online tenders area a module to manage tenders for sales of oil product stocks was implemented, which accompanies the equivalent module developed the previous year to manage purchase tenders.

In the management area, in October a module for Warehouse Reporting was issued for use which included the reports "Schedule of changes by quantity and value", "Product form with quantity and value" and "Registry of owned assets".

Additionally, between April and October 2016, administrative and accounting data on OCSIT processes to purchase storage capacity and oil products recorded in the ERP accounting system were imported to the management program for OCSIT actions during 2014 and 2015.

Finally, at the end of July 2016 a new OCSIT website was released for use, developed with the same software used to create AU's internet portals.

Central systems and for IT security

During the first months of 2016, the Disk Backup structure in the Primary Data Centre and Disaster Recovery was strengthened, replacing equipment with better models, so as to allow for the needed growth in terms of archival space.

The project to "virtualise" server infrastructure which began in 2013 has in fact made it possible to rationalise management of applications, assigning virtual servers to homogeneous groups of applications but has also led, on the other hand, to significant growth in the number of virtual servers installed and, consequently, the amount of storage space required. An expansion of disk space was therefore required, both in terms of production storage and relative backup systems.

In terms of IT security, in April 2016 a tender was begun to replace firewall equipment used to protect the server infrastructure and databases within the AU network.

With regards to the technological infrastructure of AU's central systems, during 2016 it was necessary to physically transfer all equipment, both in the Primary Data Centre and in Disaster Recovery.

The first transfer in March was required by restructuring work and adjustment of the technological systems in the rooms where the server farm of Rome is located, at GSE headquarters, involving the movement of all equipment inside of the new racks to a room located near the server farm.

The second transfer in August affected the Disaster Recovery Data Centre which, due to the results of a GSE tender which assigned system housing services to a new supplier, required all equipment to be moved from the Milan offices to the Rozzano offices.

Prevention of IT risks

The systems and devices specifically dedicated to IT security within the IT infrastructure of AU help to implement the necessary countermeasures to mitigate the risks arising from the loss or corruption of information and those related to the possible unavailability of systems.

In general, the information and the related management systems may be subject to potentially hazardous events, whether accidental or deliberate, which have a risk of causing negative consequences for the company.

Damage to information may relate to the loss of confidentiality, integrity and availability as well as violations of rules or laws and cause impacts on operational efficiency.

Countermeasures taken to reduce the risks that threaten the security and business continuity are basically oriented on business processes and the behaviour of employees with regard to IT systems, as well as the functionalities of the handset and computer applications for the aspects concerning controls and to access logging.

Hardware/software systems expressly dedicated to AU IT security include backup data systems, firewall systems which block and control traffic coming from the network, antivirus software and storage systems and server virtualisation which replicates them through remote disaster recovery sites.

More specifically, during 2016 the data backup system was strengthened through the replacement of Data Domain equipment with improved models that also provide more archiving capacity. In addition Firewall equipment that had become obsolete was replaced with cutting edge systems to protect the central systems from potential attacks coming from the perimeter or internal networks.

During July and September a test was performed on an antivirus product, to support that already used, which was intended to guarantee protection against so-called "zero day" attacks, which take advantage of the time between the appearance of a new virus and the issuing of the relative countermeasures by the security companies. However, the tests did not give the desired results. A similar test with a different software product is planned for the first few months of 2017.

Additionally, between May and June equipment was installed on a trial basis within AU to analyse internet traffic, with the aim of identifying potentially threatening situations through the correlation of events and access in real time based on a database of known threats. Unfortunately, it was not possible to obtain an exhaustive verification of the functions of the product due to the structure of AU's network, which is heavily integrated with that of GSE, requiring configuration activities to be performed jointly with the parent company's systems workers in order for this type of equipment to

operate at maximum efficiency. In any case, the test was useful to emphasise that activities relative to network security must be carried out synergistically with GSE's technical structures which, within the group, manage most of connectivity for both the local and geographic network.

An additional study was done to identify software to manage and securely save passwords for administrative users of the central systems and to monitor the activities of systems administrators.

The first product, tested in June, was found to be quite complex and difficult to manage, rendering it unsuitable for the intended purposes. In December testing of another product was begun and the results obtained were substantially positive. Acquisition of the software is planned for the first few months of 2017.

Communication Activities

The main objective of communication activities was to insert Acquirente Unico as a confirmed member of the circuit of energy sector opinion leaders, strengthening its role as an entity able to combine consumer protection with market development.

This objective was pursued above all through constant interaction with the press and secondarily through public meetings, which also served as a tool to disseminate research carried out by Acquirente Unico. The final method used was institutional conversations.

With regards to organisation of events, Acquirente Unico gave life to two conventions which were considered, in a number of ways, as two peak moments for the debate going on in the world of energy regarding at least two crucial issues.

The first, "Evolution of the retail electricity market: the British model and prospects for Italy", examined the extremely current problem of methods used to open up the retail market. Research done by the British anti-trust authorities on the functioning of the market served as the starting point for analysing the trends and prospects for the enhanced protection market and consumer empowerment.

The second convention, "'More information, more market'", highlighted the role of the integrated information system and the increasingly essential relationship between information and development in the retail market. The convention also served as an occasion for presenting the study "Active demand in the energy market", prepared by AU together with ICom, which focussed attention on the importance of the IIS, which is a necessary tool to improve efficiency in the market on both the

demand and supply sides. The event also saw high level participation from various associations, including: Utilitalia, Aiget, Wec, Assoelettrica and Rete Imprese Italia.

Work with the press aimed to continue the approach that has been followed for the last several years: AU is not a company which desires or requires constant media presence, given that it provides a service role. Rather, AU is an active entity that operates at multiple levels, in the aim of supporting interpretation and understanding of the complex world of energy, through its own technically grounded and thoughtful point of view. A contribution which serves to increase the number of “informed voices” included in public debate. This led to: 26 agency launches, 878 online articles, 177 newspaper articles and 5 journal articles. Video interviews totalled 4.

2016 was also the year in which the company updated its web-based communications. The creative and organisational push came entirely from inside AU, which only made use of an external company (obtained through the Consip Mepa platform) to create contents which are autonomously processed.

Hence, the website was radically changed, with the adoption of a new layout and organisation of the contents, with the objectives of making it easier to use, increasing the number of contacts, providing clear and complete information, and providing a navigation experience that is more modern and, therefore, more immediate and intuitive.

The company's Intranet was also reorganised, both in terms of layout and contents, in order to support internal communications and work activities.

Finally, the tools for monitoring print publications and the Internet have been enhanced, as such media have been helpful as the means to intercept, also at a local level, challenges and points of attention in the energy markets.

Litigation management

Credit and dispute management with respect to companies that provide the enhanced protection service

With respect to management of AU's trade receivables towards the enhanced protection service operators, in the event of a default on payment at maturity, AU intervenes, preliminarily out of court, with informal contacts and reminders, and then through the courts, with appeals for an injunction.

With respect to the nature of these receivables and the debtors, note the following.

AU's receivables derive from the sale of electricity, on the basis of the standard contract approved by Authority Resolution ARG/elt.76/08. In November 2010, the Authority, with Resolution Arg/elt. 208/10, amended the Standard Contract, introducing the obligation of the issue of a security deposit as an alternative to guarantees. By virtue of that provision, AU may write to the competent judicial authorities to secure the release of the deposit for enhanced protection service by operators/distributors that have defaulted in the release of the collateral required by Article 10 of the Standard Contract.

In the same resolution, the Authority specified that AU could apply the standard contract with respect to its counterparts, regardless of the actual signing of the contract.

The entities from which AU has overdue receivables are mainly municipalities, or public capital entities, holders of a distribution concession issued by the MED, against which there are remedies under the Code of Civil Procedure on the subject of enforcement proceedings.

The risk of non-collection of trade receivables by AU with respect to the enhanced- protection service operators is generally modest, either due to their nature (they are certain, liquid and payable, being regularly invoiced according to the regulatory provisions in force) and the types of legal entities liable, taking into consideration that such credits are backed by adequate guarantees. In the financial statements accruals are always required, in view of the receivables expired, in the provision for doubtful accounts, as described in the Notes.

With specific regards to legal actions undertaken to recover its receivables, during the year AU requested an injunction against a municipality, providing enhanced protection, to release the deposit paid relative to the electricity sales contract.

Other disputes in progress

In 2016, the Company was involved in proceedings before Minor Court (Giudice di Pace) for matters related to the activities of the Integrated Information System, in particular with reference to the "Indemnity System", and the Energy Consumer Help Desk. The decisions were in AU's favour.

During the year employment law appeals were concluded with a settlement.

An appeal was submitted to the Regional Administrative Court of Lazio, Rome Section, by a bidder entity, against the provision of exclusion relative to OCSIT tenders for the procurement of storage capacity and oil products. The Judge accepted AU's arguments and rejected the appeal.

Additionally, AU received an appeal relative to a tender from a temporary business consortium, which appealed AU's provision of exclusion from the said tender with the Regional Administrative Court of Lazio, Rome Section. More specifically, following the initial granting of precautionary measures by the Regional Administrative Court, the Council of State accepted AU's appeal and rejected the precautionary request proposed at the first level. Following the appellant's subsequent renunciation of the dispute, the Regional Administrative Court declared that the appeal could not proceed.

Finally, in December two electricity sales operators participating in the selection procedure relative to "Similar Protection" appealed AU's provisions to reject their request for admission to Similar Protection with the Regional Administrative Court of Lazio, Rome Section. The rulings in any case were in AU's favour, issued in January 2017.

Tax Assessments

Following a tax audit started in the month of March 2013 and terminated in the month of July of the same year, on, respectively, 16 October and 4 November 2014, two notices of assessment were delivered to the Company for the years 2009 and 2010. In fact, the Lazio Regional Directorate of the Revenue Agency ascertained a greater IRAP taxable as a result of the rejection of the tax wedge.

Particularly, with the tax assessment for 2009, the Office settled higher IRAP of € 63,672.00 and imposed fines of the same amount (for an application amounting to € 127,344.00, excluding interest).

Regarding the 2010 tax year, the Office settled an higher IRAP of € 82,202.00 and imposed fines of the same amount (for an application in total amounting to € 164,404.00, excluding interest).

Against those two notices of assessment, the Company, on 12 December 2014, brought two separate appeals before the Provincial Tax Commission of Rome, applying for cancellation and giving the arguments already contained in the application in respect of the subsidy pursuant to article 11 of Legislative Decree 446/1997, as AU's activities are not exercised as a concession and, much less, for a "rate".

The Company, in compliance with the legal requirements, also made payments due on a provisional basis, pending the judgement of first instance, equal to one third of the tax paid in the assessment. More specifically, on 12 December 2014, it paid for 2009 € 25,047.27, and for 2010, it paid € 31,238.03.

The first level for both cases ended on 12 October 2016, with the filing of the two judgements 22860/2016 and 22861/2016, with which the Provincial Tax Commission of Rome fully accepted both of the Company's appeals.

At present the terms are still pending (six months from the filing date) for the presentation of an appeal by the Office relative to the Regional Tax Commission of Lazio.

Activities of the Financial Reporting Manager

The activities carried out by the Financial Reporting Manager, as well as for issuing of formal attestation regarding the 2016 financial statements, can be summarised as follows:

- Activities to update and maintain the procedural system and IT applications associated with processes used for accounting and financial reporting, in cooperation with the interested offices;
- Preparation and issuing of the internal standard “2016 Financial Statements Circular”, containing specific rules for company departments involved in the process of preparing the annual accounts, together with the request for letters of attestation sent to the managers of the various processes (both within AU and the parent company, for the activities carried out under services agreements), relative to their areas of responsibility, to ensure proper processing and representation of the data used to prepare the financial statements and report on operations;
- Theoretical research activities, on site training for involved resources and operational implementation of amendments to the financial statement disclosure following the introduction of Legislative Decree 139 of 18 August 2015.

Activities of the Corruption Prevention and Transparency Manager

Law no. 190 of 6 November 2012 on “Measures for the prevention and repression of corruption and lawlessness in the public administration”, contains rules to prevent and curb corruption and illegality in the public administration sector, and states that transparency is an essential element for the prevention of corruption itself.

ANAC Decision no. 8 of 17 June 2015, as well as the Ministry of Economy and Finance Directive of 25 August 2015, extended these measures to subsidiaries of the public administration and, therefore, to AU, a public company entirely held by GSE, in turn fully held by the Ministry of Economy and Finance.

The 2016 ANAC PNA, approved with Resolution 831 of 3 August 2016, implements the relevant legislative changes which recently occurred with reference to Legislative Decree 97 of 25 May 2016 “containing the revision and simplification of provisions on prevention of corruption, publicity and transparency, correcting Law 190 of 6 November 2012 and Legislative Decree 33 of 14 March 2013, pursuant to article 7 of Law 124 of 7 August 2015, on the reorganisation of public administrations” and to Legislative Decree 50 of 18 April 2016, the Public Contracts Code.

The changes brought by Legislative Decree 97/2016 relative to transparency clarify the nature, content and approval procedures for the PNA, delimiting the subjective scope of application for the regulations, as well as redefining publication obligations on public administration websites together with the new generalised right to civil access for deeds, documents and information not subject to obligatory publication.

AU Director for Corruption Prevention and for Transparency, in office since May 2015, mainly saw to the following during 2016:

- preparation of the Three Year Corruption Prevention and Transparency Plan, approved by the BoD on 25 January 2017, published on the company website in the Transparent Company section;
- updating the Transparent Company section on the website, to ensure compliance with applicable legislation on anti-corruption and transparency;

- complying with publication requirements relative to the data and information required under current legislation, with particular reference to the completeness, clarity and updating of the information;
- protecting, through the “Whistleblower protection company procedure”, whistleblowers from any form of retaliation, discrimination or penalisation, also ensuring the confidentiality of the whistleblower’s identity. The Procedure was prepared taking ANAC recommendations and current regulations into account;
- supervising training activities with regards to transparency and prevention of corruption, provided to all company employees. Specifically, for high level and mid-level managers a training seminar was organised, carried out in a classroom at the offices of the parent company GSE. All company personnel, including high level and mid-level managers, also took part in an e-learning course, with a final test required to receive the certificate of participation;
- guaranteeing the operation of Civic Access indicating, within AU’s website in the Transparent Company section, the methods and email addresses to exercise this right in terms of Simple Civic Access and Generalised Civic Access. Simple Civic Access allows anyone to request documents, data or information which administrations are required to publish. Generalised Civic Access or Freedom of Information Act - FOIA access allows anyone to request documents, data or information that go beyond those which administrations are required to publish.

RELATIONS WITH THE PARENT COMPANY AND ITS SUBSIDIARIES

AU is a company wholly owned by the Gestore dei Servizi Energetici - GSE SpA, such as the Gestore dei mercati Energetici - GME S.p.A. The parent company GSE also provides management and coordination.

During 2016, AU obtained support from GSE through special service contracts, relative to leasing of its headquarters and other associated services, for the provision of IT services and assistance and consulting work on a continuous basis.

With respect to the economic relations with GME, in 2016, it was confirmed as the main trading partner of AU.

Below are summarised the relations with the parent company GSE and with GME, in terms of the balance sheet and income statement. These schedules compare 2016 with the previous year.

Relations with GSE

The item Total Receivables, totalling € 13,179 thousand, as seen in Table 16, refers almost entirely to the amount of receivables deriving from VAT liquidation.

The item Total Payables, equal to € 366 thousand, refers essentially to the amount relative to infragroup service contracts.

Cost and revenue items are almost entirely represented by service contracts and the leasing of the real estate used as company headquarters, and recovery of expenses for personnel seconded to the parent company.

Further details are explained in the Notes to the Accounts.

Table 16: Summary of relations between Acquirente Unico and GSE S.p.A. (€ thousand)

	2016	2015	Changes
Receivables			
Non trade receivables	72	77	(5)
Receivables for infra-group VAT	13,107	5,051	8,056
Total receivables	13,179	5,128	8,051
Prepayments	-	8	(8)
Total prepaid expenses	-	8	(8)
Total	13,179	5,136	8,043
Payables			
Payables for service agreements and other	366	327	39
Total Payables	366	327	39
Accrued costs	2	-	2
Total Accrued costs	2	-	2
Total	368	327	41
Revenue			
Other revenues (seconded employees, etc.)	171	187	(16)
Total Revenues	171	187	(16)
Costs			
Costs for service agreement	3,169	3,235	(66)
Interest expense on intercompany bank account	2	-	2
Total Costs	3,171	3,235	(64)

Source: Internal processing, Acquirente Unico

Relations with GME

Relative to relations with GME, shown in Table 17, the main balance sheet item consists of payables relative to electricity purchases (€ 448,370 thousand), for the portion not yet financially settled. The decrease in this item amounted to € 181,725 thousand.

The main income statement item is represented by costs for purchases on the spot electricity market, equal to € 1,841,930 thousand, compared to € 1,787,601 thousand the previous year.

Table 17: Summary of relations between Acquirente Unico and GME S.p.A. (€ thousand)

	2016	2015	Changes
	€ thousand		
Prepayments			
Prepaid expenses consideration on Data Reporting Platform	1	1	-
TOTAL PREPAID EXPENSES	1	1	-
Payables			
Payables for energy purchases	448,370	630,095	(181,725)
Payables for services spot electricity market	230	193	37
Payables for services forward electricity market	-	-	-
Payables for services on PCE	12	32	(20)
TOTAL ENERGY PAYABLES	448,612	630,320	(181,708)
Payables for other services	7	7	-
TOTAL NON-ENERGY PAYABLES	7	7	-
TOTAL PAYABLES	448,619	630,327	(181,708)
Costs			
Cost for purchases spot electricity market	1,841,930	1,787,601	54,329
Cost for purchases on forward electricity market	174,909	1,634,007	(1,459,098)
Cost of services spot electricity market	1,328	1,057	271
Cost of services forward electricity market	-	37	(37)
Cost of service on PCE	129	225	(96)
Cost for data reporting services (REMIT)	1	-	1
TOTAL ENERGY COSTS	2,018,297	3,422,927	(1,404,630)
Expenses for other services	35	35	-
TOTAL NON-ENERGY COSTS	35	35	-
TOTAL COSTS	2,018,332	3,422,962	(1,404,630)

Source: Internal processing, Acquirente Unico

Information about additional related parties

The Company has multiple relations with direct or indirect subsidiaries of the Ministry of Economy and Finance, which in turn holds 100% of the capital of the AU's parent company GSE. The main transactions are conducted with the major players in the Italian energy industry, such as the Enel Group, ENI and TERN. All transactions with related parties take place at market prices in accordance with the conditions that would apply to third-party counterparts.

BUSINESS OUTLOOK

Energy supply

The demand from the enhanced protection market forecast for 2017 is approximately 52 TWh.

Starting on 1 January 2017, Reformed Enhanced Protection (REP) was introduced, as in resolution 633/2016, which establishes that Acquirente Unico will obtain supplies through the Spot Energy Markets (DAM and MPEG). Therefore, for 2017 no physical contracts have been stipulated.

Activities in support of operators and end customers

Consumer and Conciliation Area

2016 was a "bridge" year for the Consumer and Conciliation Area dedicated to adapting the organisation to the regulatory changes introduced by the Authority, effective as of 01/01/17, in addition to managing the toll free number +39 800.166.654 and complaints and settlements.

This challenging task made it possible to ready the structure, systems and operational supports by the deadlines established in resolution 383/2016/E/com and to provide the new services from the beginning of 2017, without interruptions from the previous management and in compliance with the new service levels defined by the Authority.

More specifically, as of 1 January 2017, the Energy Consumer Help Desk represents the **sole reference point** for electricity and gas end consumers and their proxies who wish to resolve disputes with suppliers or to request information about regulations and their own rights, making use of the services made available by the Authority.

During the coming year, strengthening of the Settlement Service structure will continue, based on the volumes forecast in the Project approved by the Authority, through the integration of new conciliators, both internal and external, and through a new high performance platform for online management of the procedure.

Internal conciliators will in part be obtained from employees who had managed complaints received by the Help Desk until the end of 2016, appropriately certified and trained for the new activities, while the other employees of the former Complaint Help Desk Unit will be responsible for Special Settlement and Information Procedures, customer notifications and the new Help Desk service dedicated to associations accredited by the Authority.

Also note that the already cited regulatory changes, in addition to requiring significant adjustments in the Help Desk's activities, systems and skills, will also affect the volumes of requests received during the year in course.

In particular, the 2017-2019 Single Project authorised by the Authority with resolution 727/2016/E/com provides for a significant decrease in support requests received by the Help Desk and, for this reason, involves a resizing of the staff within this Department, with employees transferred to other Departments and Areas within Acquirente Unico based on their requirements, which will continue through the first half of 2017.

Integrated Information System

The most significant developments in IIS activity expected in 2017 mainly regard:

- Processing of aggregates for hourly consumption curves relative to electricity industry delivery points processed hourly. For each of the approximately 300,000 delivery points, the IIS receives the measurements taken daily every 15 minutes. As of February 2017, starting with the detailed data for each delivery point, the IIS must process hourly aggregates for each dispatch user (UDD) for each distributor.
- Acquisition of hourly measurements for electricity delivery points, for which the installation of second generation meters is planned. The installation of new meters in 2017 should involve around 1 million delivery points.
- Implementation of switching processes in the gas sector as well, through the IIS, similar to that already developed for the electricity sector;
- Implementation of procedures to manage flows to facilitate refunds relative to RAI fees in invoices, as in the Agency's circulars, implementing that established in Decree no. 94 of 13 May 2016.

In terms of the role that IIS plays in the proper functioning of retail market processes, significant developments for the technological platform are planned for 2017, to adequately support continuously increasing operating volumes and simultaneously guarantee effective continuity of service.

The new platform will advance the current configuration, based on a primary and secondary data centre, aligned asynchronously with the primary, to be activated in the case of a disaster, to a new configuration based on two similar data centres which are simultaneously active. The new configuration

makes it possible to divide the load of process activities between both centres, in a dynamic manner, ensuring synchronous responses from the entire database using the memories present in the two centres. This option, in addition to offering notable management flexibility, makes it possible to guarantee continuity of service without data loss, even when only one of the two centres is active.

Moreover, the activities related to process management assigned to the Gestore, the use of technological infrastructure and the software for services supply will continue.

Retail Market Monitoring system for electricity and natural gas

For 2017, continuation of activities to support management of the collections assigned by the Authority are planned. Additionally, the progressive processing of part of the indicators used by the TIMR is planned, starting from the information available in the IIS databases, so as to simplify collection of data supplied directly by sector operators. This will make it possible to focus AU support activities on identifying specific phenomena and any further investigations necessary relative to the involved entities.

Italian Central Stockholding Entity - OCSIT

While the end of 2016 saw continuous increases in oil product prices, due to the announcement of a decrease in oil production by OPEC, the start of 2017 saw a more downward trend, even if still near the highest levels seen in 2016. This market situation continues to favour entities which need to accumulate stocks with an eye to the long term, including OCSIT, which over the coming months will increase its purchases to include an additional two days with respect to the two already budgeted for in the business plan.

To that end, in the first few days of the year action had already been taken to complete activities preparatory to the purchase of new products and to rent the relative storage capacity but, above all, to finalise the awarding of the tender relative to the second loan, in the amount of € 400 million.

In January 2017, the Company awarded the tender for the second loan.

During the tender process, OCSIT received bids equal to around 2 times the requested amount. Two entities (an important Italian credit institution and a temporary business consortium consisting of major financial institutions) were awarded different portions of the overall loan, allowing OCSIT to obtain the entire requested amount of € 400 million at competitive rates. Once the necessary formalities have been

completed, signing of the loan contract is planned for the end of March, in time for payments relative to new purchases, which are scheduled to begin in the first few days of April 2017.

By 15 February, as established in Article 2, paragraph 3, of the Guidelines by the Ministry of Economic Development dated 31 January 2014, OCSIT must inform the Director General for security of supply and energy infrastructure of the Ministry of Economic Development in relation to the actual costs incurred by the same during 2016 (so called final balance), necessary for determining the amount to an adjustment of the contribution.

Regarding new stock obligations, the Ministerial decree to be issued in February will establish the total quantities of emergency stocks and specific stocks that must be held by the system as of 1 April 2017, the day the stock year begins.

OTHER INFORMATION

Concerning the overall provision in Article 2428, paragraph 1 of the Italian Civil Code, for the description of the "principal risks and uncertainties" to which the Company could be exposed, the respective information are described in the specific chapters and sections of the Report on Operations, which sets forth the relevant content relating to the various regulatory, operational and organizational areas dealt with.

Reference should be made, in particular, to the following sections of the Report:

- The juridical-legal regulation and its implications, particularly with respect to the regulatory laws and rules applicable, are highlighted in the chapter "Regulatory elements and areas of reference". This section examines, more specifically, the salient regulatory aspects relative to each area of business activity;
- The section on "Risk management", within the chapter on activities in energy markets, outlines in synthesis the method of use of the supply agreements to hedge the risk of fluctuations in the market price; the amount of energy exchanged through such contracts (purchases at the physical end) is properly outlined in a specific section and compared to the amount in the previous year, both in terms of absolute quantities and in terms of their percentage of total supplies;
- Any element of uncertainty concerning the Company's receivables is summarized in the section on "Credit and disputes management with respect to companies that provide the enhanced protection service" in the chapter "Litigation Management". The Explanatory Notes also show the amount of receivables, a breakdown by sub-item and provide a comparison with the previous year, as well as changes in the specific Provision for write-downs;
- Issues of potential risks inherent to financial debt are indicated briefly in the comment on sources, in the illustration of the reclassified Balance Sheet;
- In the chapter on "Litigation Management", under "Other disputes in progress", there is also a description of the salient facts concerning legal disputes (other than those pertaining to the performance of the receivables) and their implications, where relevant and applicable;
- The chapter "Tax Assessments" provides information about the tax audit relative to 2008, and the relative consequences. Note that the Explanatory Notes also provide, for the sake of completeness, additional information and data about the audit in question, provided in the

chapter "Information about commitments, guarantees and potential liabilities not recognised in the balance sheet";

- In the chapter on “Corporate information systems” under “Prevention of IT risk”, the equipment dedicated to physical and logistical security are briefly described, which guarantee the confidentiality, integrity and availability of corporate information, functional to preventing and containing risks that could potentially affect data. In this area, the tools used to address situations of temporary unavailability of one or more systems are briefly described, such as the sites for Disaster Recovery and Business Continuity.

With regards to the indications provided in paragraph 3 of article 2428 of the Civil Code, it should be noted that the Company does not hold, nor has it purchased or sold during the year, either through trust companies or proxies, any treasury shares or those of its parent company.

Also note that the Company did not carry out research and development activities in 2016.

Finally, note that events classifiable as “significant” after the end of the year are described in detail in the specific section of the Explanatory Notes.

BALANCE SHEET

FINANCIAL YEAR 2016

BALANCE SHEET

ASSETS

	Partial	Total	Partial	Total	Changes
	Dec. 31, 2016		Dec. 31, 2015		
	€		€		
A) UNPAID SHARE CAPITAL DUE FROM SHAREHOLDERS		-		-	-
B) FIXED ASSETS					
I. <i>Intangible assets</i>					
3) Industrial patents and intellectual property rights	2,489,451		2,185,168		304,283
4) Concessions, licences, trademarks and similar rights	3,939		4,467		(528)
6) Assets under construction and advances	192,869		38,209		154,660
7) Other	1,006,587		1,047,078		(40,491)
		3,692,846		3,274,922	417,924
II. <i>Tangible Assets</i>					
4) Other assets	967,791		1,018,015		(50,224)
6) Specific stocks of oil products	296,591,966		184,802,955		111,789,011
		297,559,757		185,820,970	111,738,787
III. <i>Financial Assets</i>					
<i>Due within 12 months</i>			<i>Due within 12 months</i>		
2) Receivables:					
d bis) due from others	59,814	580,977	28,389	325,696	255,281
		580,977		325,696	255,281
Total Fixed Assets		301,833,580		189,421,588	112,411,992
<i>Due after 12 months</i>			<i>Due after 12 months</i>		
C) CURRENT ASSETS					
I. <i>Inventories</i>		-		-	-
II. <i>Receivables</i>					
1) Due from customers	752,636,104		738,087,420		14,548,684
4) Due from parent companies	13,179,267		5,127,973		8,051,294
5 bis) Tax receivables	987,733		619,592		368,141
5 ter) Deferred tax assets	534,166		511,896		22,270
5 quater) Due from others	96,829		134,867		(38,038)
6) Due from Energy and Environment Services Fund	199,154		4,634,025		(4,434,871)
		767,633,253		749,115,773	18,517,480
III. <i>Financial assets not held as fixed assets</i>		-		-	-
IV. <i>Cash and cash equivalents</i>					
1) Bank and postal accounts	46,569,010		11,296,097		35,272,913
3) Cash and cash equivalents	3,400		4,001		(601)
		46,572,410		11,300,098	35,272,312
Total current assets		814,205,663		760,415,871	53,789,792
D) ACCRUED INCOME AND PREPAID EXPENSES					
Prepayments	122,889		139,033		(16,144)
Total accrued income and prepaid expenses		122,889		139,033	(16,144)
TOTAL ASSETS		1,116,162,132		949,976,492	166,185,640

LIABILITIES

	Partial	Total	Partial	Total	Changes
	Dec. 31, 2016		Dec. 31, 2015		
	€		€		
A) SHAREHOLDERS' EQUITY					
I. Capital		7,500,000		7,500,000	-
IV. Legal reserve		1,109,411		1,099,581	9,830
VI. Other reserves:					
- Extraordinary reserve		-		124,686	(124,686)
IX. Profit for the year		141,607		196,593	(54,986)
Total shareholders' equity		8,751,018		8,920,860	(169,842)
B) PROVISIONS FOR RISKS AND CHARGES					
2) Taxes including deferred liabilities		126,293		155,841	(29,548)
4) other		1,347,179		1,264,264	82,915
Total provisions for risks and charges		1,473,472		1,420,105	53,367
C) EMPLOYEE SEVERANCE INDEMNITY		558,436		642,539	(84,103)
	<i>Due after 12 months</i>		<i>Due after 12 months</i>		
D) PAYABLES					
4) Due to banks:					
a) short term		89,665,392		26,182,982	63,482,410
b) medium and long term	296,850,000	296,850,000	184,850,000	184,850,000	112,000,000
7) Due to suppliers		258,402,478		86,288,137	172,114,34
11) Due to parent companies		365,539		327,133	38,406
11 bis) Due to subsidiaries of parent companies		448,618,831		630,326,147	(181,707,316)
12) Tax payables		334,484		385,790	(51,306)
13) Payables to social security institutions		572,413		571,482	931
14) Other payables		10,515,998		9,717,311	798,687
15) Due to Energy and Environment Services Fund		41,747		334,721	(292,974)
Total payables		1,105,366,882		938,983,703	166,383,179
E) ACCRUED COSTS AND DEFERRED INCOME					
Accrued costs		12,324		9,285	3,039
Total accrued costs and deferred income		12,324		9,285	3,039
Total liabilities		1,107,411,114		941,055,632	166,355,482
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,116,162,132		949,976,492	166,185,640

INCOME STATEMENT

FINANCIAL YEAR 2016

INCOME STATEMENT

	Partial	Total	Partial	Total	Changes
	2016		2015		
	€		€		
A) PRODUCTION VALUE					
1) Revenues from sales and services:					
a) revenues from the sale of electricity	3,549,682,246		4,186,870,580		(637,188,334)
b) other energy-related revenues	26,852,691		24,238,284		2,614,407
c) revenues to cover non-energy operating costs	25,778,864		19,556,828		6,222,036
		3,602,313,801		4,230,665,692	(628,351,891)
5) Other revenues and income:					
a) contingent assets related to energy	151,868,300		161,301,703		(9,433,403)
b) income and other revenues	724,289		770,231		(45,942)
		152,592,589		162,071,934	(9,479,345)
Total production value		3,754,906,390		4,392,737,626	(637,831,236)
B) PRODUCTION COSTS					
6) For raw materials, supplies, consumables and goods:					
a) energy purchases on the electricity market	2,016,838,916		3,421,608,483		(1,404,769,567)
b) energy purchases bilateral contracts	715,113,347		-		715,113,347
c) unbalancing fees	28,666,155		147,566,804		(118,900,649)
d) other energy purchases	852,407		2,435,950		(1,583,543)
e) other	22,666		20,119		2,547
		2,761,493,491		3,571,631,356	(810,137,865)
7) For services:					
a) dispatching and services related to energy	807,201,017		631,007,628		176,193,389
b) sundry services	8,446,696		8,118,251		328,445
		815,647,713		639,125,879	176,521,834
8) For use of third party assets					
a) storage	8,216,943		3,823,100		4,393,843
b) other	1,575,851		1,578,857		(3,006)
		9,792,794		5,401,957	4,390,837
9) For personnel:					
a) wages & salaries	9,388,277		9,139,990		248,287
b) social security contributions	2,562,904		2,578,909		(16,005)
c) termination indemnities	658,600		620,487		38,113
e) other costs	288,768		317,057		(28,289)
		12,898,549		12,656,443	242,106
10) Amortisation, depreciation and write-downs:					
a) amortization of intangible assets	2,004,929		1,556,543		448,386
b) depreciation of tangible asset	354,689		336,612		18,077
c) other fixed asset write-downs	-		178,324		(178,324)
		2,359,618		2,071,479	288,139
14) Other operating costs:					
a) contingent liabilities related to energy	151,868,300		161,301,703		(9,433,403)
b) other charges	505,155		299,815		205,340
		152,373,455		161,601,518	(9,228,063)
Total production costs		3,754,565,620		4,392,488,632	(637,923,012)
Difference between value and production costs (A-B)		340,770		248,994	91,776
C) FINANCIAL INCOME AND EXPENSES					
16) Other financial income:					
a) long term receivables	1,010		1,083		(73)
d) other income	2,764,107		2,632,194		131,913
		2,765,117		2,633,277	131,840
17) Interest and other financial expenses:					
a) to parent company	2,002		-		2,002
b) other	2,782,592		2,576,685		205,907
		2,784,594		2,576,685	207,909
Total financial income and expenses		(19,477)		56,592	(76,069)
D) VALUE ADJUSTMENT OF FINANCIAL ASSETS					
Total value adjustment of financial assets		-		-	-
Profit before taxes (A-B+C+D)		321,293		305,586	15,707
20) Income taxes, current, deferred and prepaid					
a) current taxes	315,086		712,808		(397,722)
b) taxes relative to previous years	(83,582)		(64,541)		(19,041)
c) deferred tax liabilities and assets	(51,818)		(539,274)		487,456
		179,686		108,993	70,693
21) Profit for the year		141,607		196,593	(54,986)

STATEMENT OF CASH FLOWS

FINANCIAL YEAR 2016

Euro

STATEMENT OF CASH FLOWS

	<u>2016</u>	<u>2015</u>
A. Cash flows from operating activities		
Net income	141,607	196,593
Income taxes	179,686	108,993
Interest expense	2,784,594	2,576,685
(Interest income)	(2,765,117)	(2,633,276)
(Capital gains)/capital losses deriving from disposal of assets	9,286	0
1. Profit (loss) for the year before income taxes, interest, dividends and capital gain/losses on sale of assets	350,056	248,995
<i>Adjustments for non-cash items that had no counterpart in the net working capital</i>		
Allocations to provisions	1,347,179	1,264,264
Employee termination benefits	658,600	620,487
Depreciation of fixed assets	2,359,618	1,893,155
Other adjustments to non-cash items	0	178,324
Total adjustment to non-cash items	4,365,397	3,956,230
2. Cash flows before changes in net working capital	4,715,453	4,205,225
<i>Change in net working capital</i>		
- Decrease (increase) in amounts due from customers	(14,589,155)	176,954,583
- Decrease (increase) in amounts due from parent company	(8,051,294)	(1,114,354)
- Decrease (increase) in amounts due from Electricity Sector Adjustment Fund	4,434,871	531,540
- Decrease (increase) in prepayments and accrued income	16,144	(6,313)
- Increase (decrease) in amounts due to suppliers	172,006,714	(60,694,324)
- Increase (decrease) in amounts due to parent company	38,406	51,811
- Increase (decrease) in amounts due to subsidiaries of parent companies	(181,707,316)	(102,810,986)
- Increase (decrease) in amounts due to Energy and Environment Services Fund	(292,974)	224,265
- Increase (decrease) in accrued costs and deferred income	3,039	(537)
- Other changes in net working capital	388,629	(771,602)
Total changes in net working capital	(27,752,936)	12,364,083
3. Cash flows after changes in net working capital	(23,037,483)	16,569,308
<i>Other adjustments</i>		
Interest received	2,805,588	2,737,295
(Interest paid)	(2,966,595)	(2,843,618)
(Income tax paid)	(201,924)	(657,799)
(Use of provisions)	(2,006,967)	(1,653,801)
Total other adjustments (other receipts/payments)	(2,369,899)	(2,417,923)
Cash flows from operating activities (A)	(25,407,381)	14,151,385
B. Cash flows from investment		
- (Investments) divestments in tangible assets	(112,102,762)	(110,948,953)
- Increase/(decrease) in amounts due to suppliers for tangible assets	4,522	5,152
- (Investments) divestments in intangible assets	(2,422,853)	(1,718,425)
- Increase/(decrease) in amounts due to suppliers for intangible assets	103,105	26,052
- (Investments) divestments in financial fixed assets	(255,281)	(55,801)
Cash flows from investments (B)	(114,673,269)	(112,691,975)
C. Cash flows from financing		
<i>Third-party funding</i>		
Increase (decrease) in short-term borrowing from banks	63,664,411	(4,135,934)
Loan receipt (repayment)	112,000,000	106,850,000
<i>Own funds</i>		
(Dividends and advances on dividends paid)	(311,449)	(1,066,176)
Cash flows from financing activities (C)	175,352,962	101,647,890
Increase (decrease) in cash (A+B+C)	35,272,312	3,107,300
Cash at January 1	11,300,098	8,192,798
of which:		
bank and postal accounts	11,296,097	8,188,120
cheques		0
cash and cash equivalents	4,001	4,678
Cash on December 31	46,572,410	11,300,098
of which:		
bank and postal accounts	46,569,010	11,296,097
cheques	0	0
cash and cash equivalents	3,400	4,001
Total cash flows (A+B+C)	35,272,312	3,107,300

EXPLANATORY NOTES

2016

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The structure and content, as well as the classification of items in the balance sheet, income statement, statement of cash flows and explanatory notes, are compliant with that established under Legislative Decree 139 of 18 August 2015 and, in particular, with the lay-out indicated under Articles 2424, 2424-*bis*, 2425, 2425-*bis* and 2425-*ter* of the Civil Code, as well as OIC (Italian Accounting Body) Documents 10 and 12.

As established under Article 2423, paragraph 6 of the Civil Code, the financial statements were prepared in units of euro, without decimal places, while in the explanatory notes, in compliance with current regulations, values are expressed in thousands of euro.

All asset and liability items at 31 December 2016 are presented alongside the corresponding amounts for the previous year, in accordance with Article 2423-*ter*, paragraph 5 of the Civil Code.

The financial statement schedules relative to the previous year were appropriately restated, for comparison purposes, to unchanged 2015 figures, based on the new breakdown of annual figures established in the current regulations, so as to guarantee the necessary homogeneity of the said schedules. More specifically, note that extraordinary income and expense recognised in 2015, in any case of extremely limited amount, were reclassified to the correlated items based on their nature.

Note that, as Legislative Decree 139 of 18 August 2015 took effect, this led to the elimination of items destined - in the previous formulation of Article 2425 of the Italian Civil Code - to include extraordinary income and expense, and the values included in these items were reclassified, in order to ensure they were comparable with the 2016 financial statements, prepared based on the new regulatory framework. For more information, please see the pertinent sections.

During the year, no exceptional cases occurred which made it necessary to make use of derogations pursuant to article 2423, paragraph 5 of the Civil Code. Financial statements items were measured in compliance with the provisions of Article 2426 of the Civil Code.

For a better representation of the equity, financial and economic position of the Company, the reclassified balance sheet and income statement have been prepared in summary form accompanying the report on operations. Are also provided all the information deemed necessary to give a true and fair representation, even if not specifically required by law. In compliance with the provisions of Article 2423-*ter* (Structure of the balance sheet and income statement), some items in the accounts have been appropriately adapted and added.

The most significant accounting standards adopted for preparing the financial statements at 31 December 2016, as well as with regards to the content and changes in the relative individual items are outlined below.

A specific section in these Explanatory Notes outlines, pursuant to that established in Article 2423, paragraph 4, the criteria used by the Company to implement the provision established in the same paragraph (definition of insignificance of the effects of any deformity).

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

For the preparation of the 2016 financial statements, the measurement criteria set forth in article 2426 of the Civil Code have been adopted, interpreted and supplemented by the accounting standards prepared and issued by the Italian Accounting Organization (OIC). The accounting standards were adjusted based on the amendments, additions and changes introduced to the statutory regulations following the issuing of Legislative Decree 139 of 18 August 2015, implementing in Italy the Accounting Directive 34/2013/EU. Specifically, the OIC reformulated national accounting standards in the version issued on 22 December 2016.

Lastly, it is highlighted that at first time application of the new provisions introduced by the cited Legislative Decree 139 of 18 August 2015, pursuant to Article 12, paragraph 2 of the Decree in question, the Company opted not to apply the amortised cost criteria, envisaged by Article 2426, paragraph 1, no. 8 of the Civil Code, to components of items relative to transactions which have not yet exhausted their effects on the financial statements.

Intangible assets

Intangible assets are recognised at purchase cost, including any accessory charges, pursuant to article 2426, paragraph 1 of the Civil Code, and systematically amortised each year on a straight-line basis.

The item “Industrial patent and intellectual property rights” is amortized over an estimated useful life of three years.

Concessions, licenses, trademarks and similar rights are amortized over a period of ten years.

Other intangible assets are amortized over the period of expected future use of three years, except for the sub-item represented by the so-called up-front fee on the financing granted to OCSIT for the purchase of the stocks. This fee, paid in a lump sum, is amortized on a straight-line basis over the duration of the loan (five years).

In the event that, regardless of previously recorded amortization, there is an impairment loss, the asset is written down correspondingly. If in subsequent years the reasons that justified the write-down cease to apply, the asset is returned to its original value, up to the value that the asset would have had if the impairment loss had never taken place.

Tangible assets

OCSIT Specific stock of products are classified as Tangible assets as they are held on a long-term basis. They are recognised at purchase cost, net of any write-downs for impairment loss. In the presence of a drop in current oil prices, the loss of value is generally assumed to be not permanent, in that the possible realization of the stocks would arise, presumably, only in situations of extreme severity and, in particular, in the event of serious shortage of oil resources, which suggests a reasonably presumed related rise in prices. In case, should the realizable value of OCSIT stocks be, anyway, lower than the value shown in the accounts, the negative difference would in any case be fully covered, in accordance with article 1, paragraph 8 of MED Decree of 1 January 2014 (so-called Official Guideline).

Tangible assets relating to Other assets are stated at acquisition cost, also including accessory charges directly attributable, and are depreciated each year on a straight-line basis using rates that are determined in relation to their possible residual utility. In particular:

- Fixed client PCs and laptops are depreciated over a three-year period;
- Other assets are depreciated over a five-year period.

If there is an impairment loss, regardless of the previously recorded depreciation, the asset is written down correspondingly. If in subsequent years the reasons that justified the write-down cease to apply, the asset will be restored to its original value up to the value that the asset would have had if the impairment loss had never taken place.

The costs of ordinary maintenance, as not affecting the level or the potential use of the assets, are charged to the income statement in the year they are incurred. However, maintenance costs with an incremental value are allocated to the related assets and depreciated over the residual useful life of the assets.

Financial assets

Financial assets refer to Receivables due from employees for amounts loaned in accordance with the current contractual regulation. The item is recognised at its nominal value, in that effects deriving from the application of the amortised cost criteria are irrelevant, taking the time factor into account.

Receivables and payables

Receivables are recognised using the amortised cost criteria, taking the time factor into account as well as the presumable realisable value. Receivables are shown net of any provision for write-downs on receivables, appropriate determined to express their presumable realisable value. They are classified according to their nature and purpose, under “Financial fixed assets” or “Current assets”.

In general, payables are recognised using the amortised cost criteria, taking the time factor into account, that coincide with the nominal value in the absence of transaction costs and implicit financial components. Medium and long-term payables are an exception, for which the Company made use of the regulatory option to not apply the amortised cost method retrospectively.

Cash and cash equivalents

Cash and cash equivalents at the end of the year are indicated at their nominal value.

Accruals and deferrals

They are determined according to the accrual basis.

Provisions for risks and charges

Provisions for risks and charges include costs and charges of a specific nature, certain or likely, but for which, at year end, the amount and/or the date of occurrence are undetermined. The provisions reflect the best possible estimate based on the information available. Risks for which the emergence of a liability appears merely possible are indicated in specific notes.

Employee severance indemnity

This is established in compliance with laws and labour contracts in force and reflects the liabilities accrued in respect of all employees at the balance sheet date, net of advances paid under the law, as well as amounts paid in supplementary pensions. Following the entry into force of the Law of December 27, 2006 No. 296 (2007 Finance Law), the Employee severance indemnity is also reduced for the amounts transferred to the Treasury Fund set up with INPS (the Italian State Social Security Entity).

Revenues and Costs

They are recognised in accordance with the principle of prudence and economic attribution and are net of rebates and discounts. Revenues from services and the sale of goods are recognised when the service is supplied or on transfer of ownership of the goods.

Revenues and costs relating to the purchase and sale of electricity are supplemented with appropriate accounting estimates based on the provisions of the law, the Authority for Electricity and Gas and Water System, in force during the reporting period. These estimates, which are typical of the activities carried out by the Company, are the result of calculations performed by the technical and commercial departments based on available information, including by comparison with the main counterparts.

With reference to the purchase and sale of electricity and related services, the application of the legislation referable to AU, as well as the general principles of proper accounting for accruals and correlation between revenues and costs, involves the achievement of equivalence, by means of appropriate accounting estimates, between revenues and corresponding costs. The coverage of the costs of the purchase and sale of energy complies, in particular, with the provisions of the following standards:

- Article 4, paragraph 6, of Legislative Decree No. 79/99, which provides that the balance of the accounts is ensured by AU. The principle of balancing of AU has been, among other things, referred to by Article 4 of the Decree of the Minister of Productive Activities of 19 December 2003;
- Article 11.3, Annex A to the Authority for Electricity and Gas Resolution 156/07 which, in stipulating that the criteria for determining the price of electricity sold to operators of the enhanced protection service, establishes, essentially, that AU should cover its own operational costs in terms of managing energy related activities.

As far as revenues covering operating costs regard the accounting is done:

- Assuming accounting equilibrium between revenues and related costs, in accordance with the applicable laws on the matter;
- Assuming the existence of official acts of the supervisory authorities that enable the recognition on accrual basis of fees and their amount, based on the principle of reasonable certainty of the maturation of the same fees (on a case by case, they may be the acts that approve the final statement or, waiting for these, the acts which formally authorize the budget for the year, as long as the final balance is kept within the limits of the budget itself).

Income taxes

Current taxes on income are recognised with a balancing of payables/tax receivables, net of advance payments and withholdings, based on the estimated taxable income, determined in accordance with the provisions in force and taking into account the applicable tax benefits and credits.

In application of OIC document no. 25, if the requirements are met, deferred and prepaid taxes are recorded based on temporary differences between gross statutory profit and taxable income.

If the recalculation shows a prepaid tax charge, it is recorded in the accounts among deferred tax assets only to the extent that there is reasonable certainty of its future recovery.

Conversion criteria for items in other currencies

Assets and liabilities originally expressed in another currency are converted in the financial statements at the exchange rate in effect at the time of the transaction. Effects of any conversions to exchange rates at the end of the year are entirely irrelevant.

System for keeping separate accounting records for economic and equity items relative to the Integrated Information System (IIS) and the Italian Central Stockholding Entity (OCSIT)

As established in the Authority for Electricity, Gas and Water System Resolution Arg/com/201/10, in reference to the IIS, and in Legislative Decree 249 of 31.12.2012, relative to OCSIT, AU has adopted specific systems to ensure distinct accounting for the economic and equity items relative to the IIS and OCSIT, as if their business was performed by a separate entity.

More specifically, based on appropriate methodological models approved by the senior management of the Company, AU prepares special separate annual accounts for the IIS and OCSIT, to be submitted to the regulators (Authority for Electricity, Gas and Water System and MED), respectively for IIS within 60 days of the approval of the annual financial statements, for OCSIT within 90 days of the approval of the annual financial statements.

The separate annual accounts comprise, in summary, the following reports:

- Balance sheet;
- Income statement;
- Accounting details and comments in the notes on the criteria and methodologies adopted.

Regarding the financial reporting information that pertains to Acquirente Unico S.p.A., and more directly related to the activities under accounting separation, the following points are noted:

- In specific chapters of the Report on Operations, there is summary information regarding the development and management of the IIS and OCSIT;
- In one table, which is also included in the Report on Operations, the costs of operating AU S.p.A., are broken down by macro-area of activities. This table specifically shows operating costs attributed, by economic attribution, to the IIS and to OCSIT;
- A comment of the respective tables of the notes to these financial statements shows separately, where relevant and significant, the amounts of the balance sheet and income items relating to business under accounting separation.

Specifically, amounts are reported for OCSIT stocks products, recorded within Tangible assets and the related financing granted for the purchase of the same stocks, recorded in Payables due to banks.

Information about commitments, guarantees and potential liabilities not recognised in the balance sheet

Pursuant to that established in article 2427, point 9 of the Civil Code, below is the total amount of commitments, guarantees and potential liabilities not recognised in the balance sheet.

Commitments - € 11,731 thousand

This item shows future commitments deriving from the stipulation of contracts to store oil products owned by OCSIT, relative to the 2017-2019 period.

Personal guarantees to third parties – € 33,866 thousand

This item pertains to the guarantee required by GSE to AU and provided by AU in favour of the Revenue Agency, to cover the excess of deductible tax transferred to GSE within the Group VAT, compensated under Article 6 of Ministerial Decree 13 December 1979.

Collateral and personal guarantees received – € 1,386,946 thousand

The item mainly refers to the sureties, totalling a guaranteed amount of € 1,343,000 thousand, issued in favour of AU, by banks or parent company, in the interest of the companies providing the enhanced protection service for which the Company invoices energy.

These sureties, issued pursuant to article 10 of the contract for the sale of electricity between AU and the companies operating the enhanced protection service, as updated by the AEEGSI's Resolution ARG/Elt. no. 208/10, guarantee AU's receivables due from the companies operating the enhanced protection service, for an amount of no less than 1/6 of the annual cost, including VAT, sustained by each operator in the previous calendar year to supply energy to its customers on the protected market.

In this context is mentioned the surety of € 1,150,000 thousand at 31.12.2016, issued in favour of AU by ENEL S.p.A., guaranteeing the obligations arising from the contract for the sale of electricity.

Among the guarantees received are also recorded, for an amount of € 42,975 thousand, guarantees issued by energy suppliers companies, as a guarantee of the contractual obligations.

The item also includes the guarantees provided by the suppliers of goods and services other than energy, amounting to € 189 thousand, to guarantee payment of the obligations defined in the contracts with AU.

Finally, it also includes mortgages on real estate, with a secured total of € 782 thousand, issued by employees against the provision of loans by the Company for purchase of their first home.

Potential liabilities - € 323 thousand

As also described in the Report on Operations, as a result of the tax audit initiated in March 2013, ending at the end of July of the same year, on 16 October and 4 November 2014 the Company received two notices of assessment respectively for the years 2009 and 2010, with which the Lazio Regional Directorate of the Revenue Agency ascertained greater IRAP taxable, denying that the tax wedge subsidy was applicable.

Specifically, with the assessments pertaining to 2009 and 2010, the Office dismissed a higher IRAP and penalties totalling approximately € 300 thousand (excluding interest) for the two years.

Against those two notices of assessment, the Company, on 12 December 2014, brought two separate appeals before the Provincial Tax Commission of Rome, applying for cancellation and giving the arguments, already contained in the application presented in 2014 on the subject in question, in respect of the subsidy pursuant to article 11 of Legislative Decree 446/1997, as AU's activities are not exercised as a concession and, much less, for a "rate".

The Company, in compliance with the legal requirements, also made payments due on a provisional basis, equal to one third of the tax levied in the notice of assessment.

With the two rulings 22860/2016 and 22861/2016, both filed on 12 October 2016, the Provincial Tax Commission of Rome upheld the Company's appeals. At present the terms are still pending (six months from the filing date) for the presentation of an appeal by the Office relative to the Regional Tax Commission of Lazio.

Total risk, which can be expressed as a potential liability at 31 December 2016, amounts to around € 323 thousand, in terms of maximum amounts due. This amount has not been accounted for as an accrual to specific Provision for risks, given that the risk of tax in question was recently reiterated by the Company's tax advisers as being possible, but not probable.

More specifically, the decision not to establish a special provision for risks derives from that established in article 2424-bis, paragraph 3 of Civil Code, interpreted in the light of the reference accounting standards.

Information pursuant to Article 2423, paragraph 4

Below the criteria used by the Company to implement the provision contained in Article 2423, paragraph 4 are illustrated, with particular regards to the definition of irrelevance of the effects of any deformity.

In particular, the significance of the relevance of the fundamental qualitative characteristics necessary to guarantee the utility of the information provided in the annual financial statements is explained.

Given that relevance is understood to be a specification of the concept of significance, information is relevant if its omission or imprecise representation is able to influence the decisions that potential users make on the basis of the annual financial statements, whether they are internal (company bodies, management) or external (stakeholders). More specifically, relevance is an aspect that must be related to the specific company providing accounting information, based upon the nature or size (or both) of the element to which the information refers, in the context of the specific annual financial statements for the individual company. Therefore, relevance depends upon the amount and nature of the omission or error based upon the specific circumstances. The amount or nature of the information, or a combination of both, may be the determining factor.

Given that it is for the most part quantitative, the determination of relevance is expressed through specific threshold parameters, in order to determine whether, in relation to a financial statement element, an error or omission has enough influence on the level of information and news provided by the financial statements, considering their nature and the circumstances in question. This determination requires that parameters be determined in a relativistic manner, looking at the size of the company and its characteristics.

The operating context of Acquirente Unico (AU) is outlined in relation to the following variables:

- compliance with legal operational conditions, in the light of the fact that legal and regulatory provisions do not allow for “free” determination of profit for the year;
- the characteristics of the business performed and operating dimensions;
- the interests of the stakeholders most worthy of attention and protection.

In this context and in the light of the current management conditions, the following threshold parameters are identified:

- total operating revenues (for energy sales to operators within the enhanced protection service, etc.): reference value 0.1%;

- operating costs (personnel expense; external services, such as consulting or similar; expenses relative to company bodies; general expenses and for company logistics, etc.): reference value 2.5%;
- Balance sheet value of technical fixed assets consisting of stocks of petroleum products: reference value 0.5%;
- gross financial debt: reference value 0.5%;
- shareholders' equity: reference value 1%.

In order to identify the acceptable margin of error, in terms of irrelevance, two types of factors are considered:

- the amount of the individual error (measurement of tolerable non-compliance for an individual case);
- the amount of the cumulative error, that is the maximum acceptable distortion of the sum, or simultaneous presence of multiple “errors”, provided that they relate to different cases (sum of the amount of all the events/cases of non-compliance).

In the first case (specific margin of error), the maximum amount is equal to the average of the values achieved in a given year of the 5 parameters proposed. In the second case (total margin of error), the maximum tolerance is equal to the sum of the values achieved in each of the parameters considered.

Proposal for the allocation of profits

The proposal for the allocation of profits for 2016 (€ 142 thousand), to be submitted to the attention of the Company's Shareholders' Meeting for approval, is as follows:

- 5% of profits to the Legal Reserve, in the amount of € 7 thousand;
- 95% of profits as dividends to be paid to the Shareholder, in the amount of € 135 thousand.

Subsequent events

The main significant events occurring after the end of financial year 2016 are indicated below, with an explanation of the main implications.

Agreement with CSEA:

At the beginning of January 2017, after a resolution by AEEGSI, the agreement stipulated with the Fund for Energy and Environment Services (CSEA) took effect, regarding the payment of advances needed to cover requirements originating from the new settlement methods in effect as of 1 December 2016 on the Day Ahead Market (DAM).

The Agreement in question covers needs for purchases on the DAM up to a maximum of € 350 million, as established in AEEGSI Resolution 822/2016/R/EEL of 29 December 2016.

AU will pay interest to CSEA on the amounts advanced, at the rate established in the Agreement (spread of 81.25 basis points with respect to the Euribor 6-month).

Medium-term loan to supply stocks of petroleum products:

In the first few months of 2017, the tender for the second OCSIT loan will be awarded, concluding the procedure begun in the second half of 2016.

The characteristics of the loan, which should be signed by the end of March, so as to fulfil all the stock year obligations (which will presumably begin on 1 April 2017), are the following:

- 1) Amount: 400 million;
- 2) Duration: 5 years;
- 3) Rate: variable (spread + Euribor 6 month);
- 4) Type: "bullet", with repayment of capital at maturity.

The loan, similar to that signed in June 2014 is a granted loan, to be used exclusively to purchase OCSIT specific stocks, and it is not affected by collateral or personal guarantees in favour of the institute disbursing it, with the exception of a specific escrow account in which any income deriving from the sale of the stocks in question will be transferred.

The tender, during which OCSIT received bids equal to around 2 times the requested amount, saw two different entities prevail (a major Italian credit institution and a temporary business consortium consisting of major financial institutions), each awarded different portions of the overall loan. This mechanism, based on criteria that awards based on lower costs, allowed OCSIT to obtain the entirety of its requirement at competitive rates.

BALANCE SHEET

ASSETS

UNPAID SHARE CAPITAL DUE FROM SHAREHOLDERS

At 31 December 2016 the item had a zero balance.

FIXED ASSETS – € 301,834 thousand

Intangible assets – € 3,693 thousand

The analysis of this item and changes during the year are as follows (Table 18):

Table 18: Intangible assets

€ thousand

	Industrial patent and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under construction and advances	Other	Total
Balance as at Dec. 31, 2015					
Original cost	6,012	10	38	3,145	9,205
Amortisation	(3,827)	(6)	-	(2,097)	(5,930)
Balance as at Dec. 31, 2015	2,185	4	38	1,048	3,275
Movements of year 2016					
Increases	1,818	° °	193	412	2,423
Entering services	35	-	(38)	3	-
Amortisation	(1,549)	° °	-	(456)	(2,005)
Balance of changes in 2016	304	-	155	(41)	418
Balance as at Dec. 31, 2016					
Original cost	7,865	10	193	3,560	11,628
Accumulated Amortisation	(5,376)	(6)	-	(2,553)	(7,935)
Balance as at Dec. 31, 2016	2,489	4	193	1,007	3,693

Source: Internal Processing, Acquirente Unico

The item “Industrial patents and intellectual property rights” for € 2,489 thousand relates to basic and specific software application packages, with the related evolutionary maintenance.

The increases that occurred in the year (€ 1,818 thousand) are mainly attributable to investments made by the Integrated Information System, for the development of new features related to the implementation of the System itself.

Further increases during the year are due to the purchase of software licenses for database management and virtualisation of systems, for licenses acquired to create the OCSIT IT system and, finally, for licenses for various software products, mainly used to manage IT infrastructure and internet portals.

Concessions, licenses, trademarks and similar rights (€ 4 thousand) mainly include the costs incurred by the Company for registration of the OCSIT trademark (€ 4 thousand).

Assets under construction, for € 193 thousand, relate almost exclusively to projects not yet completed relative to the Integrated Information System.

Other intangible assets, equal to € 1,007 thousand, include the residual value of the upfront commission for the medium-term loan, granted to purchase OCSIT oil product stocks (€ 375 thousand).

It also relates to the application software of the computer operating system, developed for the specific needs of AU and related customisation, mainly for the following features:

- trading on the Power Exchange;
- demands prediction;
- calculation and prediction of sales prices;
- CRM, Portal for Customers and Operators for the management of consumer complaints;
- online system for conciliation management;
- platforms for handling statistics in the energy sector and relative to mandatory stocks;
- the Oracle JD Edwards system for managing OCSIT operating processes.

The increases during the year (€ 412 thousand) relate primarily to the following activities:

- personalisation of the sales tender management system of oil products and warehouse reporting;
- integration in the “Energy Retail” system for participation in the MPEG market;
- strengthening of the consumption forecasting system with new forecast models;
- adjustment of the Customer Portal and the Help Desk website based on new regulations regarding protection of end customers;
- evolutionary maintenance of Stocks and i-Sisen applications, to manage and monitor oil stock requirements and statistics in the energy sector.

Tangible assets - € 297,560 thousand

The table below indicates the amount and changes in the item (Table 19).

Table 19: Tangible assets

€ thousand	OCSIT specific stocks	Other assets	Total
Position as at Dec. 31, 2015			
Original cost	184,989	2,945	187,934
Accumulated depreciation	-	(1,927)	(1,927)
Decreases	(186)	-	(186)
Balance as at Dec. 31, 2015	184,803	1,018	185,821
Movements of year 2016			
Increases	111,789	321	112,110
Depreciation	-	(355)	(355)
Net divestments	-	(16)	(16)
Balance of changes in 2016	111,789	(50)	111,739
Position as at Dec. 31, 2016			
Original cost	296,778	3,266	300,044
Accumulated depreciation	-	(2,282)	(2,282)
Decreases	(186)	-	(186)
Net divestments	-	(16)	(16)
Balance as at Dec. 31, 2016	296,592	968	297,560

Source: Internal Processing, Acquirente Unico

The item primarily relates to the value of year-end stocks of oil products for OCSIT, considered as a long-term investment (€ 296,592 thousand).

With reference to stocks of OCSIT, the increases, amounting to € 111,789 thousand, consist of the investment made in 2016, with which three additional stock days were purchased.

During 2016, no decreases in the value of stocks was seen, consequent to natural declines in that, as of 1 January 2016, the Company decided to make use of a different type of contract option, as a consequence of which these declines were treated as costs for accessory storage services (declines fee), so as to not create stock changes.

Considering the loan contract granted to purchase OCSIT stocks, it should be noted, in compliance with Article 2447-*decies* of the Civil Code, that income deriving from the sale of the stocks in question is

bound exclusively for use to repay the aforementioned loan, as established in Article 2447-*bis*, paragraph 1, letter b) of the Civil Code. Under this loan agreement, the beneficiary AU has undertaken not to create or permit the existence of any encumbrance on the stocks in question.

In any case, the sale of OCSIT stocks can occur only with the prior authorization by the governing Authority; should the realization value of said stocks be different from the value recorded in the financial statements, the positive difference shall be granted to cover OCSIT costs and expenses, while the negative difference will be fully covered by the contribution under article 7, para. 4 and 5 of Legislative Decree 249/2012, in accordance with article 1, paragraph 8 of MED Decree dated 31 January 2014 (Official Guideline).

The valuation at 31 December 2016 of the stocks in question, analysed by type of product and with the indication of their quantities, is set forth in a separate table of the Report on Operations.

In compliance with the provisions under Article 2426, point 10 of the Civil Code, the difference is set forth in the following table (Table 20) between the book value of stocks in question, by category of fungible goods, and current value at the end of the year.

Table 20: OCSIT PRODUCT STOCKS- DIFFERENCES BETWEEN THE BOOK VALUE AT 31 DECEMBER 2016 AND MARKET PRICE VALUE (€ thousand)

	Carrying cost	Values at market prices at Dec. 31, 2016	Differences
Gasoline – Super Unleaded	67,291	66,268	(1,023)
Automotive gasoil	195,734	204,837	9,103
Jet fuel	28,426	30,030	1,604
Fuel oil BTZ	5,141	5,976	835
Total	296,592	307,111	10,519

Source: Internal Processing, Acquirente Unico

The difference that can be deduced from the table, amounting to € 10,519 thousand, is attributable to the recovery in oil product prices, due to favourable developments in the international geopolitical context.

In any case, it is held that these differences, even in the case of a negative difference, that is a value at market prices less than the amount recognised in the financial statements, do not have a permanent nature, such as to give rise to write-downs, as given their peculiar nature of "strategic" stocks any sale

would be expected only in situations of extreme need, for lack of oil supplies, which therefore makes it reasonable to assume that the realizable value would be not less than the historic value.

If, by hypothesis, the realisation value was lower than the value recognised in the financial statements, coverage would in any case be guaranteed under the MED Official Guideline cited above.

Other assets, amounting to € 968 thousand, mainly refer to the supply of hardware for the Integrated Informative System (€ 728 thousand). This also includes the cost of hardware for user workstations, such as desktop PCs, mobile PCs and accessories, and the hardware composing the AU's IT infrastructure, which is mainly composed of servers, mass storage devices and security systems.

The increases in 2016, equal to € 321 thousand, are for the most part associated with investments made by the IIS and, to a lesser degree, to strengthen AU's IT infrastructure.

Financial fixed assets – € 581 thousand

Receivables due from others – € 581 thousand

This item includes loans made to employees in accordance with the applicable contractual provisions (first home purchase, important family needs, etc.), for an amount of € 581 thousand.

The detailed table, inserted to complete the presentation of the assets, shows the amount of receivables due within and beyond five years.

CURRENT ASSETS – € 814,205 thousand

RECEIVABLES– € 767,633 thousand

The indication of amounts due within and beyond 5 years is shown in the table inserted to complete comment of assets.

Receivables due from customers – € 752,636 thousand

The breakdown of this item is shown in the following table (Table 21):

Table 21: Receivables due from customers (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Receivables for selling electricity to enhanced protection service operators	743,385	717,774	25,611
Receivables from enhanced protection operators for Integrated Information System fees (IIS) - protected electricity market	524	538	(14)
Receivables due from dispatch users for Integrated Information System fees (IIS) - open market	384	328	56
Receivables from gas operators for Integrated Information system fees	550	505	45
Receivables from oil operators to cover OCSIT costs	5,366	4,933	433
Receivables due from Terna for unbalance fees	2,123	13,854	(11,731)
Accrued interest on arrears	575	616	(41)
Total receivables due from customers	752,907	738,548	14,359
Provision for write-downs on receivables	(271)	(461)	190
Total	752,636	738,087	14,549

Source: Internal Processing, Acquirente Unico

The item mainly refers to the receivable for the sale of electricity to companies providing the enhanced protection service (€ 743,385 thousand). This amount is mainly due to the accrual of the receivables related to November and December 2016. In relation to this receivable, invoices are issued respectively in the months of January and February 2017. Almost all of these invoices have been collected at the date these Notes were prepared.

This item also includes receivables from Terna for unbalancing fees (€ 2,123 thousand); receivables from oil operators for contributions to cover the costs of OCSIT (€ 5,366 thousand); receivables from fees to cover the costs of the Integrated Information System for the portion pertaining to the enhanced protection service operators in the electricity sector (€ 524 thousand), for the portion relative to electricity dispatch users (€ 384 thousand) and also for the portion relative to gas sector operators (€ 550 thousand). Finally, it includes receivables for interest on arrears for late payments (€ 575 thousand).

The item "Receivables for electricity sales to enhanced protection operators" is adjusted and integrated relative to adjustments to be carried out, according to the accrual principle. These accruals are accounted for on the basis of the best estimates prepared by AU offices, in compliance with the Authority's resolutions.

The amount of receivables due from customers is net of the provision for write-downs on receivables (€ 271 thousand), to align them with the presumed realisable value.

This alignment follows an examination of the positions with regard to the enhanced protection service operators overdue at the end of the year, taking into account the extent to which they are overdue, issuing of guarantees, instigation of lawsuits, etc.

As compared to the previous year, the Provision has shown a decrease of € 190 thousand, for the positive evolution of receivables, with a benefit to the Income Statement of the same amount (Table 22).

Table 22: Changes in Provision for write-down on receivables (€ thousand)

	Amount
Provision as at Dec. 31, 2015	461
Used	(190)
Provisions	0
Provision as at Dec. 31, 2016	271

Source: Internal Processing, Acquirente Unico

The limited increase in the item as a whole compared to the previous year (€ 14,549 thousand) can essentially be attributed to the combined effects of the increase in receivables due from enhanced protection operators on one hand (€ 25,611 thousand) and, on the other, the decrease in receivables due from Terna for unbalancing fees (€ -11,731 thousand).

Receivables due from parent companies – € 13,179 thousand

This item consists mainly of the amount of the VAT credit to the parent company of € 13,107 thousand as well as receivables for other services (€ 72 thousand).

The trend in the last two years of the sub-items mentioned above can be taken from Table 23.

Table 23: Receivables due from parent companies (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Due from parent company:			
- VAT on credit	13,107	5,051	8,056
- Sundry services	72	77	(5)
Total	13,179	5,128	8,051

Source: Internal Processing, Acquirente Unico

As compared to the previous year, the item showed an increase of € 8,051 thousand.

Tax receivables – € 988 thousand

The item is entered net of current tax liabilities, which amount to € 315 thousand. This includes mainly the advance payments of IRES and IRAP, amounting to € 710 thousand.

The increase of the item with respect to 2015, amounting to € 368 thousand, is due to reductions in current taxes liabilities from previous year (€ -398 thousand).

Deferred tax assets – € 534 thousand

The item includes deferred tax assets against temporary differences deductible in future years, associated with directors' fees (for solely IRES), to amortisation/depreciation exceeding the fiscally deductible portion (for solely IRES) and to provisions for employee bonuses (both for IRES and IRAP).

This item is recognised to the extent that future recovery is reasonably certain. It shows an increase of € 22 thousand, as compared to the previous year.

Changes in deferred tax assets are shown in the Table 24:

Table 24: Deferred tax assets (€ thousand)

	IRES	IRAP	Total
Deferred tax assets at Dec. 31, 2015	451	61	512
Decreases	(363)	(61)	(424)
Increases	382	64	446
Deferred tax assets at Dec. 31, 2016	470	64	534

Source: Internal Processing, Acquirente Unico

The decreases refer to the reversal of deferred tax assets:

- For the portion of fees to directors paid during the year (€ 9 thousand, solely for IRES purposes);
- To the recovery of amortisation/depreciation not deducted in previous years (€ 2 thousand, solely for IRES purposes);
- To the payment of productivity bonuses accrued and not deducted in 2015 (€ 338 thousand for IRES purposes and € 61 thousand for IRAP purposes).

Deferred tax assets were also adjusted (€ 14 thousand) to take into account the IRES rate relative to the period in which they will presumably reverse.

Increases (€ 382 thousand for IRES and € 64 thousand for IRAP) refer to temporary differences deductible in future years, relative to:

- the portion of directors' fees not paid during the year (€ 10 thousand, solely for IRES purposes);
- recovery of amortisation/depreciation not deducted in previous years (€ 56 thousand, solely for IRES purposes);
- the provision for employee bonuses not paid during 2016 (€ 316 thousand for IRES purposes and € 64 thousand for IRAP purposes).

The table below (Table 25) shows amounts and changes (increases and decreases) in temporary differences deductible during the year to which deferred tax assets refer, broken down by macrotype.

These are calculated using the rates in force (24% for IRES as predictably related to the period of alleged reversal of the differences), to the extent provided by current law (cf. Article 2427, point 14 of the Civil Code).

Table 25: Deductible temporary differences

Deductible temporary differences	Taxes	2015	Increases	Decreases	2016
Directors fees	IRES	32	41	(32)	41
Excess amortisation/depreciation	IRES	371	235	(6)	600
Employee bonuses	IRES/IRAP	1,233	1,319	(1,233)	1,319
Total		1,636	1,595	(1,271)	1,960

Source: Internal Processing, Acquirente Unico

Receivables due from others – € 97 thousand

The following is a detailed breakdown of the item and changes over the previous year (Table 26).

Table 26: Receivables due from others

	Dec. 31, 2016	Dec. 31, 2015	Changes
Advances to suppliers	1	11	(10)
Receivables from seconded personnel - AEEGSI	65	60	5
Other	31	64	(33)
Total	97	135	(38)

Source: Internal Processing, Acquirente Unico

The item decreased by € 38 thousand with respect to the previous year.

Receivables due from Energy and Environment Services Fund (CSEA) – € 199 thousand

The item essentially relates to the amount accrued for fees, to be collected through the Energy and Environment Services Fund, aimed at covering the operating costs of activities in pooling of AEEGSI (Help Desk, Conciliation Services and Retail Market Monitoring).

The breakdown of this item is shown in the following table (Table 27):

Table 27: Receivables due to from Energy and Environment Services Fund (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Receivables from CSEA:			
- Help desk	-	4,354	(4,354)
- Retail Monitoring	11	105	(94)
- Conciliation service	78	139	(61)
- Other	110	36	74
Total	199	4,634	(4,435)

Source: Internal Processing, Acquirente Unico

As compared to the previous year, the item decreased for an amount of € 4,435 thousand. This trend was the consequence of the new refund methods for costs sustained to carry out activities in availment from the AEEGSI, introduced during 2016, which makes it possible to minimise the time between when the spending occurs and when the corresponding payment is received.

CASH AND CASH EQUIVALENTS - € 46,572 thousand

The breakdown of the item is shown in the following table (Table 28):

Table 28: cash and cash equivalents (€ thousand)

	31.12.2016	31.12.2015	Changes
Bank accounts	46,569	11,296	35,273
Cash and cash equivalents	3	4	(1)
Total	46,572	11,300	35,272

Source: Internal Processing, Acquirente Unico

The item Bank accounts refer to liquid fund available at the end of the year within the current accounts held by AU with credit companies on the same date. This includes bank accounts pertaining to OCSIT,

equal to € 1,394 thousand, of which € 258 thousand obtained from the loan granted to purchase specific stocks, but not yet used as of the reporting date, and an amount of € 1,008 thousand against deposits paid by certain operators at the time of pre-qualification for tenders issued by OCSIT, as an alternative to a bank surety. These also include bank balances relative to the IIS, in the amount of € 2,551 thousand. IIS and OCSIT bank accounts are separately identified and used within the context of the administrative/accounting and management unbundling system adopted.

The item also includes the balance of security deposits issued by certain enhanced protection service operators and also in this case, provided as an alternative to bank sureties (€ 121 thousand).

Overall, the item increased by € 35,273 thousand, compared to 2015, due to the funding carried out in view of the subsequent payment deadlines on the electricity market (DAM), established for the first few days of 2017, consequent to the new regulations for the Electricity market financial settlement system in effect as of 1 December 2016.

ACCRUED INCOME AND PREPAID EXPENSES – € 123 thousand

This item consists of prepaid expenses relative to insurance, postage, fees for technical support for software, hardware maintenance, etc.

Compared to 2015, this item decreased, by € 16 thousand.

Table 29 shows the breakdown of receivables in relation to their maturity period:

Table 29: Receivables breakdown (€ thousand)

	Within 12 months	From 2 to 5 years	Over 5 years	Total
Receivables under financial assets				
Due from others	60	156	365	581
Total financial receivables	60	156	365	581
Current receivables				
Due from customers	752,636	-	-	752,636
Due from parent company	13,179	-	-	13,179
Tax receivables	988	-	-	988
Deferred tax assets	534	-	-	534
Due from others	97	-	-	97
Due from CSEA	199	-	-	199
Total current receivables	767,633	-	-	767,633
TOTAL	767,693	156	365	768,214

Source: Internal Processing, Acquirente Unico

Amounts due after a year relate to the portion of loans disbursed to employees, recognised under the item Financial fixed assets.

It should be noted that all receivables recorded in the financial statements are due from national counterparts.

TOTAL ASSETS – €1,116,162 thousand

LIABILITIES

SHAREHOLDERS' EQUITY – € 8,751 thousand

Movements in Shareholders' equity during 2016 are shown in the following table (Table 30):

Table 30: Shareholder's Equity (€ thousand)

	Share capital	Legal reserve	Other reserves	Profit for the year	Total
Balance as at Dec. 31, 2014	7,500	1,083	872	335	9,790
Destination of profits 2014:					
- legal reserve	-	16	-	(16)	-
- extraordinary reserve	-	-	170	(170)	-
- dividend distribution	-	-	-	(149)	(149)
Extraordinary reserve distribution	-	-	(917)	-	(917)
Result of the year 2015					
- Profit for the year	-	-	-	196	196
Balance as at Dec. 31, 2015	7,500	1,099	125	196	8,920
Destination of profits 2015:					
- legal reserve	-	10	-	(10)	-
- dividend distribution	-	-	-	(186)	(186)
Extraordinary reserve distribution	-	-	(125)	-	(125)
Result of the year 2016					
- Profit for the year	-	-	-	142	142
Balance as at Dec. 31, 2016	7,500	1,109	-	142	8,751

Source: Internal Processing, Acquirente Unico

With respect to the individual components of shareholders' equity, is shown also an analysis by origin, the possible use and the amount available (Table 31):

Table 31. Shareholders' equity (€ thousand)

Nature/Description	Amount	Possible Use	Amount available
Share Capital	7,500		
Legal Reserve	1,109	B	1,109
Total	8,609		1,109

Key: A) for share capital increase; B) to cover losses; C) for distribution to shareholders

Source: Internal Processing, Acquirente Unico

It is also reported that in the years from 2013 to 2016, reserves were distributed for a total amount of € 3,060 thousand.

Share capital – € 7,500 thousand

The value of the share capital, which is fully paid, equals € 7,500,000 and is represented by 7,500 thousand ordinary shares of nominal value of € 1.

Legal reserve – € 1,109 thousand

Other reserves – € 0 thousand

The item fell to zero during the year, following the resolution by which the entire residual amount was distributed.

Profit for the year – € 142 thousand

The item represents the net profit for 2016.

PROVISIONS FOR RISKS AND CHARGES – € 1,473 thousand

Provision for taxes, including deferred tax liabilities – € 126 thousand

The provision includes the accrual of deferred tax liabilities, against temporary differences taxable for IRES purposes correlated with interest on arrears.

Changes in deferred tax liabilities are shown in the following table (Table 32):

Table 32: Changes in deferred tax liabilities (€ thousand)

	Amount
Provision as at Dec. 31, 2015	156
Used	(56)
Provisions	26
Provision as at Dec. 31, 2016	126

Source: Internal Processing, Acquirente Unico

Utilisations refer to the reversal of deferred taxes relative to the portion of interest on arrears collected during the year (€ 56 thousand).

Provisions (€ 26 thousand) related to taxable timing differences in future periods, related to interest on arrears for the year but not yet collected.

The table below (Table 33) shows the changes (increases and decreases) of temporary differences taxable during the year, relative to deferred taxes. These are calculated using the rates in force (24% for IRES as predictably related to the period of alleged reversal of the differences), to the extent provided for under current law (cf. Article 2427, paragraph 14 of the Italian Civil Code).

Table 33: Taxable temporary differences (€ thousand)

Taxable temporary differences	Taxes	2015	Increases	Decreases	2016
Interest on arrears	IRES	567	110	(150)	527
Total		567	110	(150)	527

Source: Internal Processing, Acquirente Unico

Other provisions – € 1,347 thousand

The item relates to Fund for bonuses, which includes costs recorded on an accrual basis. The provision in question includes charges for variable bonuses (MBO) for Company top management and employees (senior managers and middle managers). It also relates to the estimated cost for the corporate performance bonus (PRA) and the una-tantum amount for employees. All costs are related to the year 2016.

Accruals are the result of the best estimates made by the competent offices of the Company, in compliance with the accrual basis criteria. They pertain to the objectives and results relating to 2016, based on the accrual basis principle.

The changes in the provision in question are represented in Table 34.

Table 34: Other Provisions (€ thousand)

	Amount
Provision as at Dec. 31, 2015	1,264
Used	(1,264)
Provisions	1,347
Provision as at Dec. 31, 2016	1,347

Source: Internal Processing, Acquirente Unico

EMPLOYEE SEVERANCE INDEMNITY – € 559 thousand

The changes of the item during the year 2016 are detailed in the Table 35:

Table 35: Employee Severance Indemnity (€ thousand)

Balance as at Dec. 31, 2015	643
Provisions	659
Used	(94)
Other changes	(649)
Total as at Dec. 31, 2016	559

Source: Internal Processing, Acquirente Unico

The provision covers all entitlements to severance benefits accrued through 31 December 2016 for employees, due by law.

Other changes include the portion of the additional contribution of 0.50% under article 3 of Law 297/82, for the employees' share of Severance Indemnity pay transferred to supplementary pension funds (FONDENEL and FOPEN), and the amount accrued in the year and transferred to the Treasury Fund set up with INPS.

PAYABLES – € 1,105,367 thousand

Payables due to banks– € 386,515 thousand

The breakdown is as follows (Table 36):

Table 36: Payables due to banks (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Due to banks:			
- short term	89,665	26,183	63,482
- medium and long term	296,850	184,850	112,000
Total	386,515	211,033	175,482

Source: Internal Processing, Acquirente Unico

The sub-items are composed as follows:

- short-term liabilities – € 89,665 thousand. The subitem, which shows an increase of € 63,482 thousand with respect to 31 December 2015, refers mainly to the amount of the fixed-term loans ("hot cash" transactions), with much more advantageous rates with respect to using the ordinary overdraft checking account, aimed at covering financial deficits correlated with the introduction, from December 2016, of new schedules for settling energy purchases on the DAM, which occur earlier than the corresponding receipts for sales to enhanced protection service operators. The amount does not include, in contrast to previous years, any payable relating to the fee for non-use (so-called commitment fee), on sums not yet used regarding the granted OCSIT loan, in that this fee is no longer due from 30 June 2016. On the other hand, it does include a limited amount (€ 10 thousand) for accrual of interest to be paid;
- medium and long-term liabilities - € 296,850 thousand, relates to the portion of the loan disbursed to OCSIT during years 2014-2016 for the purchase of six days of specific stocks. The total amount of funds requested by OCSIT to the bank is broken down as follows: € 112,000 disbursed in 2016, € 106,850 thousand during 2015 and € 78,000 in 2014. At 31 December 2016, the loan, with a disbursable amount of € 300,000 thousand and maturing on 30 June 2019, was almost entirely used, for approximately 99% of the original amount. Pursuant to the loan contract, the

residual amount of € 3,150 thousand, not having been requested by the deadline of 30 June 2016, is no longer available to OCSIT.

It has to be noted that the loan is not subject to collateral or personal guarantees in favour of the financial institute, subject to the provision of an escrow account, to which any proceed deriving from the sales of the stocks in question will be transferred.

Total payables due to banks increased over the previous year by € 175,482 thousand, both in the short-term component, associated with financial requirements deriving from energy purchases on the DAM in December, and in the medium/long-term component, as a consequence of amounts used by OCSIT during 2016 to purchase three additional stock days.

Finally, with reference to medium and long-term payables, note that the Company made use of a statutory option to not apply the amortised cost method retrospectively.

Payables due to suppliers - € 258,402 thousand

The item in question, following the changes made to the obligatory Balance Sheet format, is removed from existing payables due to GME, a company subject to control by the parent company GSE. In order to adequately represent the full amount payables existing at 31 December 2016 for items relative to energy, relative to both GME and other counterparts, an additional reconciliation schedule is provided below.

It should also be pointed out that the debts pertaining to relations with GSE are recorded under Due to parent companies.

The item, which shows an increase of € 172,114 thousand with respect to the previous year, is broken down into three sub-items. The classification shown below is intended to provide separate representation, in terms of the debtor profile, of electricity supply activities (to which, as already noted, must be added payables due to GME), with respect to OCSIT operations and other payables due to suppliers.

- **Payables for purchases of energy and related services – € 255,680 thousand**

The item includes payables due against invoices already received or to be received at 31 December 2016, as a whole relating to the purchase of energy and related services, through the various supply channels used by the Company. The same item includes all payables due to energy, with the exception of those relative to GME.

The details of the various components are summarized in the Table 37, providing a comparison with the corresponding figures of 2015.

Table 37: Payables for purchases of energy and related services (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Payables for energy purchases - bilateral contracts	119,187	-	119,187
Payables for extra grid purchases of electricity and other	317	289	28
Payables to Terna for dispatching and other energy-related services	136,176	83,903	52,273
Total	255,680	84,192	171,488

Source: Internal Processing, Acquirente Unico

Payables recorded mainly relate to costs incurred attributable to November and December 2016.

The item increased by € 171,488 thousand, relative to amounts to be settled against purchases under bilateral contracts.

- **Payables for purchases of oil products and storage services – € 416 thousand**

This item refers to the amount to be settled relative to invoices received and to be received, relative to petroleum product stock storage services provided by depots, accruing during the year and maturing in months after 31 December 2016. The item increased from the previous year by € 169 thousand.

- **Other - € 2,306 thousand** (Table 38)

Table 38: Other Payables (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Payables to advisers and suppliers for invoices to be settled	656	912	(256)
Payables to advisers and suppliers for invoices to be received	1,650	937	713
Total	2,306	1,849	457

Source: Internal Processing, Acquirente Unico

The item includes the amounts of payables due to other suppliers and consultants, for invoices already received and to be settled, as well with respect to invoices to be received at the reporting date. This item increased with respect to the previous year by € 457 thousand.

Payables due to subsidiaries of parent companies - € 448,619 thousand (Table 39)

Table 39: Payables due to subsidiaries of parent companies (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Payables to GME for energy purchases	448,370	630,095	(181,725)
Payables to GME for energy-related services	242	225	17
Payables to GME for various debit notes	7	7	-
Total	448,619	630,327	(181,708)

Source: Internal Processing, Acquirente Unico

To define the concept of "subsidiaries of parent companies", the parent company GSE was used, in consideration of the fact that GSE exercises management and coordination of AU.

Therefore, this item refers to existing payables due to GME, and consists almost entirely of payables relative to purchases of electricity and correlated services, which previously had been recognised within the item Due to suppliers.

Note that the total amount of payables due to GME shows a decrease of € 181,708 thousand at the end of 2016, due to the decrease in the sub-item Payables for energy purchases.

As previously specified, to adequately represent the overall phenomenon of current payables associated with energy industry transactions (also for services), below is a reconciliation table, not relative to a specific Balance Sheet item. The table indicates total payables relative to energy components which, in the obligatory statutory schedule, are broken down into two distinct items (Table 40).

Payables due to suppliers for energy components

Table 40: Payables due to suppliers for energy components (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Payables for energy purchases - bilateral contracts	119,187	-	119,187
Payables for extra grid purchases of electricity and other	317	289	28
Payables to Terna for dispatching and other energy-related services	136,176	83,903	52,273
Payables to GME for energy purchases	448,370	630,095	(181,725)
Payables to GME for energy-related services	242	225	17
Total	704,292	714,512	(10,220)

Source: Internal Processing, Acquirente Unico

Payables due to parent companies – € 366 thousand

The item is mainly represented by payables for invoices to be received, relating to service contracts with GSE.

The item increased by € 39 thousand compared to the previous year.

Tax payables – € 335 thousand

The item, which consists primarily of amounts due to the tax authorities for withholdings on employee wages, decreased by € 51 thousand with respect to 31 December 2015. Note that current tax liabilities, totalling € 315 thousand, have been deducted from the tax credits.

Payables to social security institutions – € 572 thousand

The item is detailed in Table 41:

Table 41: Payables to social security institutions (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Payables to INPS	451	461	(10)
Other payables	121	110	11
Total	572	571	1

Source: Internal Processing, Acquirente Unico

The item includes payables relating to contributions paid by the Company, levied on wages paid, on charges accrued and not paid to personnel for holidays accrued but not taken, overtime and other allowances, as well as deductions from employees.

The item increased from the previous year by € 1 thousand.

Other payables – € 10,516 thousand

The breakdown is as follows (Table 42):

Table 42: Other Payables (€ thousand)

	Dec. 31, 2016	Dec. 31, 2015	Changes
Payables to employees and assimilated	369	381	(12)
Advance payments for operating fees subsequent years - Energy area	926	851	75
Advance payments for operating fees subsequent years - IIS	4,128	3,853	275
Advance payments for operating fees subsequent years - OCSIT	3,000	4,012	(1,012)
Advance payments for operating fees subsequent years - Consumer Help Desk	1,030	-	1,030
Non-interest bearing deposits released by enhanced protection service operators and for participation in OCSIT tenders	1,063	620	443
Total	10,516	9,717	799

Source: Internal Processing, Acquirente Unico

This item, which increased by € 799 thousand as compared to the previous year, pertains to the share of the fees to cover operating costs, already invoiced or collected in advance in 2016 but pertaining to future years. This amount has been broken down by specific area of activity. More specifically:

- € 926 thousand pertains to the difference between the consideration for energy area operating costs, approved in advance for 2016, and the amount quantifiable as the definitive fee for the same year, based on the determination of the rate of return before taxes on shareholders' equity;
- € 4,128 thousand indicates the difference between the amount of revenues accruing at 31 December 2016 covering the operating expense of the Integrated Information System and the corresponding amount of costs accrued, measured in line with the unbundling model adopted. This surplus will be used to supplement sums related to future years;
- € 3,000 thousand indicates the difference between revenues accrued to cover OCSIT operating costs in 2016, and the related amount of the charges accrued during the same period;
- € 1,030 thousand indicates the difference between the amount of fees received in 2016 against costs for the Consumer Help Desk, and the corresponding amount of final costs accruing during the same year.

Additionally, the item includes payables recognised against non-interest bearing security deposits issued in favour of AU by certain enhanced protection service operators (€ 124 thousand) and the security deposit guaranteeing participation in OCSIT tenders (€ 939 thousand), totalling € 1,063 thousand, and payables due to employees (€ 369 thousand).

Payables due to Energy and Environment Services Fund (CSEA) – € 42 thousand

The item Payables due to Energy and Environment Services Fund (CSEA) decreased by € 293 thousand as compared to the previous year, and is the result of two opposite and partial variations:

- decrease of € 335 thousand as effect of payment, in 2016, of the amount accrued in the 2015 financial statements, on the Account for the equalisation of the costs of buying and dispatching of electricity for enhanced protection service;
- Increase of € 42 thousand in return for payment to be made, on the same basis, for further items recorded in fiscal year 2016.

ACCRUED COSTS AND DEFERRED INCOME – € 12 thousand

This item refers solely to accrued costs of € 12 thousand relative to expenses for FISDE solidarity contributions (€ 10 thousand) and chargebacks by GSE for the cost of registering the leasing contract (€ 2 thousand).

The item increased by € 3 thousand with respect to the previous year.

Regarding the breakdown of payables in relation to their residual maturity, it is specified that all payables recorded in the balance sheet will expire within a year, except for the medium-term financing for OCSIT, whose maturity is scheduled for 30 June 2019.

The following table shows the breakdown of the payables of the Company by geographic area (Table 43).

Table 43: Breakdown of payables by geographic area (€ thousand)

	ITALY	OTHER EU COUNTRIES	REST OF EUROPE	TOTAL
Due to banks	386,515	-	-	386,515
Due to suppliers	253,033	5,245	124	258,402
Due to parent companies	366	-	-	366
Due to subsidiaries of parent companies	448,619	-	-	448,619
Tax payables	335	-	-	335
Payables to social security institutions	572	-	-	572
Other payables	10,516	-	-	10,516
Payables to CSEA	42	-	-	42
TOTAL PAYABLES	1,099,998	5,245	124	1,105,367

Source: Internal Processing, Acquirente Unico

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES - €1,116,162 thousand

INCOME STATEMENT

PRODUCTION VALUE – € 3,754,906 thousand

Revenues from sales and services – € 3,602,314 thousand

The item includes the sub-items described below.

It should be noted that revenues earned are recorded exclusively against national counterparts.

a) Revenues from the sale of electricity - € 3,549,682 thousand

This item pertains to revenues from the sale of energy for companies providing the enhanced protection service, attributable to 2016, inclusive of the accruals for the amounts invoiced in the first two months of 2017, attributable to November and December 2016. The amount is adjusted and supplemented by accruals for adjustment components. Relative to 2015 there has been a decrease of € 637,189 thousand, with the performance being related, as also mentioned in the Report on Operations, to the performance in 2016 of the overall costs of electricity supply, including the burden of dispatching services and similar.

b) Other energy related revenues – € 26,853 thousand

The item pertains to the components detailed in the following table, which shows the changes relative to the previous year.

Compared to the previous year, the item as a whole saw an increase of € 2,615 thousand (Table 44).

Table 44: Other energy related revenues (€ thousand)

	2016	2015	Changes
- Revenues for unbalancing fees	24,604	22,707	1,897
- Revenues for non arbitrage fees	1,574	723	851
- Revenue from extra grid sales	675	808	(133)
Total	26,853	24,238	2,615

Source: Internal Processing, Acquirente Unico

c) Revenues to cover non-energy operating costs - € 25,779 thousand (Table 45)

The items includes the fees to cover the costs of operation of the various types of business activities. In particular, this means, based on the case, fees paid by the Energy and Environment Services Fund, or invoiced directly to operators who are debtors, in relation to the type of activities performed.

It is noted that the amount invoiced to the enhanced protection service providers, to cover operating costs in the area of energy, is included under revenues from the sale of electricity, as it is not separately charged from the economic components of the cost for the purchase of energy and related services.

Table 45: Revenues to cover non-energy operating costs (€ thousand)

	2016	2015	Changes
- Coverage of costs - Energy consumer help desk	7,983	8,041	(58)
- Coverage of costs - Retail monitoring	244	196	48
-Coverage of costs - Arbitration Service	762	364	398
- Coverage of costs - IIS	6,727	5,403	1,324
- Coverage of costs - OCSIT	10,063	5,553	4,510
Total	25,779	19,557	6,222

Source: Internal Processing, Acquirente Unico

This item increased by € 6,222 thousand over that of the previous year, mainly due to the increase in fees for coverage of the IIS and OCSIT.

Other revenues and income – € 152,592 thousand

The item pertains to the sub-items described below.

a) Contingent assets related to energy – € 151,868 thousand

The item pertains to the economic effects of adjustments related to energy, for the period 2011 (and earlier) - 2015, defined on the basis of assessments made by the technical departments of the Company, based on the information available.

The table below (Table 46) shows the relevant sub-items, with detail of the types and timing for generation of their accountability, as well as changes from the previous year.

Table 46: Contingent assets related to energy (€ thousand)

	2016	2015	Changes
<u>Year 2011 and earlier</u>			
- load profiling adjustment and various TERNAs	6,803	17,358	(10,555)
- load profiling adjustment and various - enhanced protection operators	5,095	-	5,095
- general adjustment	66	-	66
Total	11,964	17,358	(5,394)
<u>Year 2012</u>			
- load profiling adjustment and various TERNAs	14,047	14,053	(6)
Total	14,047	14,053	(6)
<u>Year 2013</u>			
- load profiling adjustment and various TERNAs	11,782	24,981	(13,199)
- load profiling adjustment and various - enhanced protection operators	-	1,308	(1,308)
- general adjustment	2	-	2
Total	11,784	26,289	(14,505)
<u>Year 2014</u>			
- load profiling adjustment and various TERNAs	16,880	9,449	7,431
- load profiling adjustment operators and others - enhanced protection operators	-	94,153	(94,153)
- general adjustment	2	-	2
Total	16,882	103,602	(86,720)
<u>Year 2015</u>			
- load profiling adjustment and various TERNAs	3,305	-	3,305
- load profiling adjustment and various - enhanced protection operators	93,885	-	93,885
- general adjustment	1	-	1
Total	97,191	-	97,191
Total	151,868	161,302	(9,434)

Source: Internal Processing, Acquirente Unico

b) Income and other revenues – € 724 thousand

The item includes the components listed in the table below, with evidence of the relevant changes that occurred relative to 2015 (Table 47).

Table 47: Income and other revenues (€ thousand)

	2016	2015	Changes
Reimbursement costs seconded personnel	375	384	(9)
Other Income and revenue	13	54	(41)
Contingent assets - use of provision for write-downs on receivables	190	27	163
Contingent assets non-energy	146	305	(159)
Total	724	770	(46)

Source: Internal Processing, Acquirente Unico

This item has decreased, as compared to the previous year, by € 46 thousand.

PRODUCTION COSTS – € 3,754,566 thousand

For raw materials, supplies, consumables and goods – € 2,761,493 thousand

The item essentially refers to costs for the purchase of energy through the various channels of supply that AU uses, in compliance with the reference regulatory framework (€ 2,761,471 thousand).

The item also includes purchases not related to energy (consumables, stationery, etc.) for a residual amount of € 22 thousand.

The schedule below (Table 48) shows a more detailed breakdown of costs for the purchase of electricity by type of supply, indicating specific changes relative to the previous year. Details pertaining to the amount of energy transacted are fully described in the related sections of the Report on operation.

Table 48: Cost for energy purchase (€ thousand)

	2016	2015	Changes
Cost purchase of energy			
Purchase of energy on the electricity market	2,016,839	3,421,608	(1,404,769)
Costs for electricity purchases - bilateral contracts	715,113	-	715,113
Balancing fees for consumption units TERN	28,666	147,567	(118,901)
Other purchases of energy			
Extra grid purchases and other	675	808	(133)
Non arbitrage fees	178	1,628	(1,450)
Total	2,761,471	3,571,611	(810,140)

Source: Internal Processing, Acquirente Unico

The overall costs for purchase of electricity show a decrease of € 810,140 as compared to 2015. Note that the main counterpart is GME, for purchases of energy on the electricity market, both on the forward market and on the day-ahead market (DAM), totalling € 2,016,839 thousand. In 2016, the item saw a decrease of € 1,404,769 thousand over the previous year.

Costs for services – € 815,648 thousand

The item primarily includes charges for services related to energy (dispatching and others), amounting to € 807,201 thousand, plus costs for various services, which amounted to € 8,447 thousand.

Charges for services pertaining to energy have been mainly charged by Terna S.p.A. (€ 805,743 thousand). Details on individual items in the cost of services related to energy are set forth in Table 49, with comparison with the previous year. Such services show an increase as compared to the previous year, amounting to € 176,193 thousand, of which € 242,720 thousand due to the increase in the uplift charge, partially compensated for by the decrease in the cost for other components.

Table 49: Cost of dispatching and other services related to energy (€ thousand)

	2016	2015	Changes
Cost of dispatching:	801,489	625,834	175,655
Consideration Procurement Resources Service in the Market for Dispatching UPLIFT	530,639	287,919	242,720
Consideration Coverage of costs of the essential units for Security System UESS	145,173	161,977	(16,804)
Consideration Coverage of Costs entered for Operation DIS	22,890	27,115	(4,225)
Availability of the Production Capacity CD	35,721	41,321	(5,600)
Consideration cover costs Remuneration of Service Load Interruptibility - INT	65,894	106,112	(40,218)
Contribution to AEEGSI Decision 232/2015/A	1,172	1,390	(218)
Other services related to energy:	5,712	5,174	538
Consideration to cover costs for wind production Modulation Res. 5/10 AEEG - TERNA	1,658	1,156	502
Costs for aggregate measures for withdrawal TERNA	2,596	2,699	(103)
Costs for GME operations	1,328	1,057	271
Costs for services from GME on electricity platform (PCE)	129	225	(96)
Costs for services from GME on forward electricity market (OTC)	-	37	(37)
Costs for services from GME for data reporting pursuant to REMIT regulation	1	-	1
Total	807,201	631,008	176,193

Source: Internal Processing, Acquirente Unico

With reference to the dynamics of total costs to purchase electricity and associated services, the decrease of € 633,947 thousand, shown in the tables below, can be ascribed to the combined effect of the reduction in physical quantities transacted (-3,963,100 MWh, equal to -6.42% over the previous year), and the decrease in the average unit cost of purchase, inclusive of services (-6.30 €/MWh, corresponding to a change of -9.26% over 2015).

Table 50: Energy supply costs (€ thousand)

	2016	2015	Change	Change %
Costs for supplying energy	3,568,672	4,202,619	(633,947)	-15.08%

Source: Internal processing, Acquirente Unico.

Source: Internal Processing, Acquirente Unico

Table 51: Change in benchmark purchase costs (€ thousand)

	2016	2015	Change	Change %
Quantity in MWh	57,801,700	61,764,800	(3,963,100)	-6.42%
Unit cost (€/MWh)	61.74	68.04	(6.30)	-9.26%

Source: Internal Processing, Acquirente Unico

Costs for other services, amounting to € 8,447 thousand, may be summarized as follows (Table 52):

Table 52: Cost for services (€ thousand)

	2016	2015	Changes
Service contracts with parent company	1,667	1,742	(75)
Services managed through parent cocompany	1,054	1,055	(1)
Directors fee	174	174	-
Statutory auditors fees	43	43	-
Supervisory board D.Lgs.231/01 fee	34	33	1
Compensation for independent auditors	41	41	-
Fees for technical, legal and notarial and administrative consulting	674	314	360
Maintenance and IT services	2,750	2,653	97
Communication fees	191	174	17
Fees for project contracts	231	331	(100)
Employees costs	114	118	(4)
Costs for administration of work	377	476	(99)
Expenses for external services, call centre activities	297	357	(60)
Postal fees	59	90	(31)
Transportation costs and rent	68	62	6
Additional costs for OCSIT stock storage	325	161	164
Telephonic	136	84	52
Other services	140	121	19
Other minor	72	89	(17)
Total	8,447	8,118	329

Source: Internal Processing, Acquirente Unico

With respect to the previous year the item increased by € 329 thousand. It should be specified that from the financial year 2016, the sub-item relative to accessory costs for OCSIT stock storage includes costs related to so called natural declines previously classified under writedowns (€ 57 thousand in 2016). As specified in the comment for balance sheet item "OCSIT specific stocks", under fixed assets, is a consequence of a different contractual option, which the Company makes use from 2016.

For use of third party assets– € 9,793 thousand

The item consists of the following two sub-items:

- **fees for oil products storage services - € 8,217 thousand.** These refer to the cost of the fees paid to third parties to lease storage depots for OCSIT product stocks. Note that this item increased by € 4,394 thousand relative to 2015, in relation to the increase in the average number of stock days stored.
- **Other - € 1,576 thousand.** The sub-item consists mainly of the rent paid to the parent company to lease the Company's offices (€ 1,462 thousand). The amount is substantially stable as compared to 2015.

Personnel costs – € 12,899 thousand

The items that make up overall personnel costs are summarised in the table below, with shows changes with respect to 2015 (Table 53).

Table 53: Personnel costs (€ thousand)

	2016	2015	Changes
Salaries and wages	9,388	9,140	248
Social security contributions	2,563	2,579	(16)
Termination indemnities	659	620	39
Other costs	289	317	(28)
Total	12,899	12,656	243

Source: Internal Processing, Acquirente Unico

The following tables (Tables 54-55) show, for the last two years and for each contractual category, monthly changes in the workforce, the level at year-end and the average level:

Table 54: Workforce

	Workforce at 31 December 2015	January 1 - Dec. 31, 2016												Workforce at 31 December 2016	Average Workforce 2016
		January	February	March	April	May	June	July	August	September	October	November	December		
<i>Senior managers</i>	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11.00
<i>Middle managers</i>	25	25	25	25	24	24	24	24	24	25	25	25	26	26	24.67
<i>Administrative personnel</i>	177	177	177	177	176	176	176	176	176	175	175	174	172	172	175.58
TTL	213	213	213	213	211	211	211	211	211	211	211	210	209	209	211.25

Average personnel cost 2016: € 61,058.22 Average work force 2016: 211.25 Personnel cost 2016: € 12,898,549.08

Source: Internal Processing, Acquirente Unico

Table 55: Workforce

	Workforce at 31 December 2015	January 1 - Dec. 31, 2015												Workforce at 31 December 2016	Average Workforce 2016
		January	February	March	April	May	June	July	August	September	October	November	December		
<i>Senior managers</i>	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11.00
<i>Middle managers</i>	24	25	25	25	25	25	25	25	25	25	25	25	25	25	25.00
<i>Administrative personnel</i>	176	172	175	172	173	174	174	174	174	174	174	176	177	177	174.08
TTL	211	208	211	208	209	210	210	210	210	210	210	212	213	213	210.08

Average personnel cost 2015: € 59,817.42 Average work force 2015: 210.08 Personnel cost 2015: € 12,566,442.64

Source: Internal Processing, Acquirente Unico

The item increased by € 243 thousand with respect to the previous year, as an effect of extremely limited changes in both total employees and average costs.

Amortisation, depreciation and write-downs - € 2,360 thousand

For 2016, the item consists entirely of depreciation and amortisation, equal to € 2,360 thousand.

Amortisation/depreciation, calculated as already noted in regards to fixed assets, refers to intangible assets for € 2,005 thousand and tangible assets for € 355 thousand. The item increased, relative to the previous year, by € 288 thousand. Also note, as indicated in the comment on the item "other services", that as of 2016 costs for natural declines in the stocks of oil products are no longer recognised under writedowns.

Other operating costs – € 152,373 thousand

The item is divided into sub-items analysed below.

a) Contingent liabilities related to energy – € 151,868 thousand

The following table (Table 56) sets details of the contingent liabilities pertaining to energy. These items are matched, in terms of amounts, by similar revenue items recorded in non-recurring income related to energy, as a consequence of the effect of institutional management, mentioned in the section on accounting principles.

The following table (Table 56) records sub-items of detail regarding the various types existing, separately for the timing of the generation of the contingent liabilities for the period 2011 (and earlier) and 2015.

Table 56: Contingent liabilities related to energy (€ thousand)

	2016	2015	Changes
<u>Year 2011 and earlier:</u>			
- load profiling adjustment and various TERNA	7,223	5,261	1,962
- load profiling adjustment and various - enhanced protection operators	4,741	12,097	(7,356)
Total	11,964	17,358	(5,394)
<u>Year 2012:</u>			
- load profiling adjustment and various TERNA	4,165	10,964	(6,799)
- load profiling adjustment and various - enhanced protection operators	9,882	3,089	6,793
Total	14,047	14,053	(6)
<u>Year 2013:</u>			
- load profiling adjustment and various TERNA	5,198	3,525	1,673
- load profiling adjustment and various - enhanced protection operators	6,586	22,764	(16,178)
Total	11,784	26,289	(14,505)
<u>Year 2014:</u>			
- load profiling adjustment and various TERNA	5,544	102,637	(97,093)
- load profiling adjustment and various - enhanced protection operators	11,338	965	10,373
Total	16,882	103,602	(86,720)
<u>Year 2015:</u>			
- load profiling adjustment and various TERNA	97,189	-	97,189
- load profiling adjustment and various - enhanced protection operators	2	-	2
Total	97,191		97,191
Total	151,868	161,302	(9,434)

Source: Internal Processing, Acquirente Unico

b) Other charges – € 505 thousand

The breakdown is as follows (Table 57):

Table 57: Other charges (€ thousand)

	2016	2015	Changes
- Entertainment costs	10	11	(1)
- Other contingencies, non-energy management	371	136	235
- Taxes	88	82	6
- Buying new spapers, books and magazines etc.	7	6	1
- Other	20	65	(45)
- Ordinary capital losses from disposals	9	-	9
Total	505	300	205

Source: Internal Processing, Acquirente Unico

Relative to the previous year, the item indicates an increase of € 205 thousand.

DIFFERENCE BETWEEN VALUE AND PRODUCTION COSTS – € 340 thousand

The difference between value and cost of production of € 340 thousand is attributable to, among other things, the estimate of the contribution to cover costs for the Energy area, based on hypotheses used to define a specific before-tax return rate on AU shareholders' equity, based on algorithms adopted by AEEGSI. To facilitate understanding of the dynamics which lead to the difference in question, the Report on Operations presents the following detailed models, in addition to the Model of the reclassification of the income statement:

- Costs for purchase of energy;
- Operating costs, based on nature;
- Operating costs, based on the specific Area of activity.

FINANCIAL INCOME AND EXPENSES – € (19) thousand

Net financial expenses, equal to € -19 thousand, comprises gross income of € 2,765 thousand, against gross expenses of € 2,784 thousand. The analysis of individual items follows.

Other financial income – € 2,765 thousand

The breakdown is as follows:

- long term receivables - € 1 thousand

The item consists of accrued interest on loans to employees.

- other income - € 2,764 thousand

This item consists mainly of the portion of the OCSIT contribution charged to oil operators, of € 2,529 thousand, for the coverage of costs related to the operation of OCSIT itself, particularly with regard to interest accrued on the loan granted to the purchase of stocks.

Other income includes, for € 8 thousand, accrued interest income on bank accounts held by the Company in the short term and for € 225 thousand default interest and penalties charged to the operators of the enhanced protection service for late payment, and € 2 thousand for positive exchange rate differences.

Interest and other financial expenses – € 2,784 thousand

- Other - € 2,784 thousand

The amount can mainly be attributed to financial expenses and fees accruing during 2016, due under the loan contract signed in 2014, granted to purchase OCSIT specific stocks. These costs, equal to € 2,516 thousand, include both interest payable on amounts used during the year, for € 2,413 thousand, as well as the fee for non-use (the so-called commitment fee), for € 103 thousand, accruing between 1 January - 30 June for amounts available but not yet used. From 1 July 2016, the period during which this fee applied ended, pursuant to the contract. On the same date, the residual amount of over € 3 million was cancelled, not having been used by the deadline of the availability period, which ended on 30 June. Total funds requested from the disbursing bank from OCSIT during the three year period from 2014-2016 amounted to € 296,850 thousand, of which € 112,000 was disbursed in 2016, € 106,850 thousand in 2015 and € 78,000 thousand in 2014.

The item also includes the cost of the bank surety issued to guarantee VAT credits (€ 241 thousand), interest expense on short-term bank debts (€ 23 thousand), interest expense on loans granted by the parent company (€ 2 thousand) and charges for negative exchange rate differences (€ 2 thousand).

INCOME TAXES – € 179 thousand

Details of the item, together with the changes relative to the previous year, are summarized in the following table (Table 58):

Table 58: Income taxes (€ thousand)

	2016	2015	Changes
- Current taxes:	315	713	(398)
IRAP	68	121	(53)
IRES	247	592	(345)
- Taxes relative to previous years:	(84)	(65)	(19)
IRES	(28)	(65)	37
IRAP	(56)	-	(56)
- Deferred tax assets and liabilities:	(52)	(539)	487
IRES - deferred tax liabilities	(30)	(373)	343
IRES - deferred tax assets	(4)	(105)	101
IRAP - deferred tax assets	(18)	(61)	43
Total	179	109	70

Source: Internal Processing, Acquirente Unico

a) Current taxes - € 315 thousand

The balance of current taxes pertains to IRAP and IRES for the year.

b) Taxes relative to previous years - € (84) thousand

The balance of this item consists of taxes relative to previous years (IRES and IRAP).

The item mainly refers to the right to repayment of that provisionally paid in relation to a dispute regarding IRAP notices of assessment relative to 2009 and 2010, following the favourable ruling issued by the Provincial Tax Commission of Rome (€ 56 thousand), as well as the IRES refund for 10% deductibility of IRAP paid in 2005, deriving from the request presented in 2009 pursuant to article 6 of Decree Law 185/2008 (€ 35 thousand).

The same data relative to the previous year, equal to € 65 thousand, were reclassified from the item Extraordinary income to the item in question, in order to provide consistency with the 2016 annual financial statements, prepared on the basis of the new regulatory structure.

c) Deferred tax assets and liabilities - € (52) thousand

The balance of this item is as follows:

- € -22 thousand for deferred tax assets, of which € 18 relative to IRAP and € 2 thousand for IRES.
The amount is related to deductible temporary differences accruing in 2016, on the assumption of

their future recovery. Future recoverability is evaluated on the basis of estimates made, including through analysis of tax legislation and forecasts of consequent effects on future taxable bases;

- € -30 thousand for deferred taxes, the balance determined through the use of the provision for deferred taxes, for the portion of interest on arrears accruing in previous years, received during the year, net of provisions, relative to interest on arrears ascertained during the year in question but not yet received.

Reconciliation between the theoretical tax rate with the effective tax rate

In accordance with document OIC 25, the schedules below (Tables 59-60) provide, for IRES, the detail of the reconciliation between income tax from the accounts and the theoretical charge and for IRAP, determination of the taxable amount.

Table 59: IRES reconciliation (€ thousand)

	Taxable	IRES
Result before current, deferred assets and liabilities	405	
Theoretical tax charge (27.5%)		111
Temporary differences taxable in future years	(110)	
Temporary differences deductible in future years	1,596	
Reversal of taxable temporary differences from previous years	150	
Reversal of temporary differences from previous years	(1,270)	
Differences that will not be reversed in subsequent years	129	
TAXABLE INCOME	900	
CURRENT IRES ON PROFIT FOR THE YEAR		247

Source: Internal Processing, Acquirente Unico

The temporary differences relative to IRES (taxable and deductible in subsequent years) are analysed with reference to the items to which they refer (deferred tax assets and deferred tax liabilities).

The differences that will not be reversed in future years (€ 129 thousand) are mainly due to non-deductible contingent liabilities, entertainment costs ascertained during the year, expenditure on motor vehicles, and to decreases, consisting of an additional deduction of the Employee Severance Indemnity Fund, deduction of IRAP and the tax exemption of positive components for taxes from previous years. With respect to the previous year (€ 1,250 thousand), the figure fell by € 1,121 thousand.

Table 60: IRAP reconciliation (€ thousand)

IRAP	Taxable	IRAP
Difference between value and cost of production	341	
Costs not relevant for IRAP	11,580	
Deductions	(11,434)	
TOTAL	487	
Theoretical tax (rate 4.82%)		23
Temporary differences taxable in future years	-	
Temporary differences deductible in future years	1,319	
Reversal of temporary differences from previous years	(1,233)	
Differences that will not be reversed in subsequent years	829	
TAXABLE IRAP	1,402	
Current IRAP for the year		68

Source: Internal Processing, Acquirente Unico

Relative to IRAP, temporary differences taxable in subsequent years are not present.

The temporary differences deductible in subsequent years are analysed with reference to the items to which they refer (deferred tax assets).

The differences that will not reverse in future years (€ 829 thousand) are primarily due to the balance of costs for the provision of quasi-subordinate work that is not deductible for IRAP and contingent assets not taxable for IRAP, while the deductions are related to the items required by IRAP law (Article 11 Legislative Decree No. 446/97).

PROFIT FOR THE YEAR – € 142 thousand

Profit for 2016 is obtained by the difference between profit before taxes (€ 321 thousand) and the tax charge for the year (€ 179 thousand), in turn represented by the sum of current taxes, taxes for previous years, and deferred tax assets and liabilities.

The result before taxes, in more detail, is as quantified as a result of the effects of a rate of return on equity before tax burdens, in accordance with AEEGSI regulations.

STATEMENT OF CASH FLOWS

The Company prepared the statement of cash flows following the structure established under accounting standard OIC 10, published by the Italian Accounting Body on 22 December 2016.

The schedule, appropriately prepared with comparable statuses, was restated for the financial year 2015 on the basis of the new preparation criteria, without prejudice to the starting values for the previous year. This was to guarantee the necessary consistency in representation.

Below are brief comments on the main items.

Cash flows from operating activities - € (25,407) thousand

This item comes to € -25,407 thousand, compared to the € 14,151 thousand recorded the previous year.

This item, more specifically, consists of profits “adjusted” for income tax, interest and capital losses (€ 350 thousand), adjustments for non-monetary elements (€ 4,365 thousand), changes in net working capital (€ -27,753 thousand) and other adjustments (€ -2,369 thousand).

Cash flows from investments - € (114,673) thousand

This item shows outgoing flows correlated with investments in fixed assets, net of payables due to suppliers for the fixed assets themselves. The most significant flow is associated with the value of purchases of OCSIT oil product stocks during the year. The flow in question was substantially stable with respect to the previous year. € -114,673 thousand in 2016, against € -112,692 thousand in 2015.

Cash flows from financial activities - € 175,353 thousand

The cash flow in question is associated, on one hand, from new disbursements relative to the medium-term loan contract for oil product stock supply requirements and, on the other, from the increase in short-term payables due to banks, these latter for the most part required to support the requirements determined by the introduction of new monetary settlement methods used for purchases on the Day Ahead Market. This flow, equal to € 175,353 thousand, indicates growth with respect to the value of € 101,648 thousand seen the previous year.

Increase in cash and cash equivalents - € 35,272 thousand

Total cash flow, equal to the sum of cash flows specifically identified amounted to € 35,272 thousand, against the € 3,107 thousand generated the previous year. This led to a total amount of cash and cash equivalents of € 46,572 thousand at 31 December 2016, of which € 46,569 thousand consisting of bank deposits and € 3 thousand from cash and valuables on hand.

OTHER INFORMATION

With reference to Article 2497-bis, paragraph 4, is provided a summary of significant financial data for the parent company which provides management and coordination of Acquirente Unico. It is also noted that the Gestore dei Servizi Energetici - GSE SpA prepares consolidated annual financial statements.

Gestore dei Servizi Energetici - GSE S.p.A. FINANCIAL STATEMENTS - 2015

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BALANCE SHEET

	AMOUNT
ASSETS	
UNPAID SHARE CAPITAL DUE FROM SHAREHOLDERS	-
FIXED ASSETS	115,583,100
CURRENT ASSETS	4,431,894,095
ACCRUALS AND DEFERRALS	535,503
Total Assets	4,548,012,698
LIABILITIES	
SHAREHOLDERS' EQUITY:	
Share Capital	26,000,000
Reserves	112,380,788
Profit for the year	10,174,970
PROVISIONS FOR RISKS AND CHARGES	39,495,473
EMPLOYEE SEVERANCE INDEMNITY	2,934,433
LIABILITIES	4,323,039,507
ACCRUALS AND DEFERRALS	33,987,527
Total liabilities	4,548,012,698
MEMORANDUM ACCOUNTS	160,283,853,589

INCOME STATEMENT

PRODUCTION VALUE	15,523,038,534
PRODUCTION COSTS	15,508,663,876
FINANCIAL INCOME & EXPENSE	5,729,878
VALUE ADJUSTMENTS OF FINANCIAL ASSETS	-
EXTRAORDINARY INCOME AND EXPENSE	(8,520,357)
INCOME TAXES	(1,409,209)
NET INCOME	10,174,970

To that end, also note that the company which prepares the consolidated financial statements for the group to which Acquirente Unico belongs as a subsidiary is Gestore dei Servizi Energetici – GSE S.p.A., with its registered offices in Rome, Viale Maresciallo Pilsudski, 92.

Also note the absence of the following circumstances:

- equity investments, held directly or through a trust company or third parties, in subsidiaries and associates;
- trade receivables and payables due after more than five years and debts secured by collateral on corporate assets;
- financial charges recorded in the year to assets entered in the balance sheet;
- income from equity investments;
- revenue or cost elements of an exceptional amount or impact. To that end, note that both contingent assets and liabilities associated with electricity management, duly analysed in terms of amounts and commented upon in this document, are not of an exceptional nature, in that they are the consequence of management of adjustments and similar phenomena, the latter of which are recurring, natural and subject to specific technical rules, within the context of the electricity system;
- recognition of deferred tax assets, for the portion recognised in the financial statements relative to losses of the year or of previous years;
- advances and loans granted to directors and statutory auditors;
- issuing of bonus shares, bonds convertible to shares, warrants, options and securities or similar items;
- issuing of other financial instruments;
- loans granted by shareholders of the Company;
- financial leasing transactions that involve the transfer to the lessor of the larger part of the risks and benefits inherent to the assets which involved in the lease.

Also note, with reference to point 22-bis) of Article 2427 of the Civil Code, that transactions with related parties are carried out under normal market conditions, in compliance with the conditions that would apply to independent counterparts.

REPORT ON 2016 FINANCIAL STATEMENTS

ACQUIRENTE UNICO S.p.A.

Registered offices in Via Guidobaldo Del Monte, 45 - 00197 Rome
Share capital €7,500,000 fully paid-in
Rome Registry of Companies, VAT and Tax ID no. 05877611003
Economic and Administrative Registry of Rome no. 932346
Sole shareholder Gestore dei Servizi Energetici - GSE S.p.A. Legislative Decree 79/99
Company subject to management and coordination by GSE S.p.A.

Report of the Board of Statutory Auditors to the Shareholders' Meeting called to approve the Financial Statements at 31 December 2016 pursuant to Article 2429 of the Civil Code

Amounts are expressed in euro

To the Shareholders' Meeting of ACQUIRENTE UNICO S.p.A.

Dear Shareholder,

during the year ending on 31/12/2016, the Board of Statutory Auditors carried out the functions established in Articles 2403 and subsequent of the Civil Code, its activities inspired also by the Board of Statutory Auditors Behavioural Guidelines issued by the Italian National Council of Chartered Accountants and Accounting Experts.

The Board of Statutory Auditors in office for the period from 2014-2016 was appointed by the Ordinary Shareholders' Meeting on 21 November 2014.

In particular, relative to financial year 2016, the undersigned Board of Statutory Auditors:

- monitored compliance with the law and the Bylaws and respect for the standards of proper administration, participating in the Shareholders' Meetings and those of the Board of Directors. To that end, the Board of Statutory Auditors notes that it obtained information from the administrative body on the general trend of management and its foreseeable outlook, as well as on the most important transactions carried out by the Company in terms of size and characteristics. The Board of Statutory Auditors can reasonably affirm that the actions carried out are compliant with the law and the Bylaws and are not manifestly imprudent, do not involve potential conflicts of interest and are not in contrast with the resolutions made by the Shareholders' Meeting or such as to compromise the integrity of the company's equity;

- assessed and monitored - for the areas under its responsibility - the adequacy of the administrative and accounting system, as well as the reliability of the latter in terms of properly representing management events, by obtaining information from the entity responsible for independent auditing and examining company documents. To that end, it has no particular observations to make. We also note that pursuant to Article 26 of the Bylaws, which introduced the Financial Reporting Manager pursuant to Article 154-bis of Legislative Decree 58/98, as amended, the Managing Director and the Financial Reporting Manager have attested to, with a specific certification, issued 23 March 2017 *“the adequacy and effective application of the administrative and accounting procedures used to prepare the annual financial statements at 31 December 2016 in relation to the company's characteristics”*, as well as the correspondence of the 2016 annual financial statements *“to the entries in the accounting books and registries”* and that the financial statements *“are prepared in compliance with the norms of the Civil Code, as well as the accounting standards prepared by the OIC and, as formed, is suitable to provide a true and accurate representation of the equity, economic and financial situation of Acquirente Unico S.p.A.”*; it finally certifies that *“the report on operations includes reliable analysis of the trend and results of operations, as well as the situation of Acquirente Unico S.p.A., together with a description of the main risks and uncertainties to which the Company is exposed”*;
- maintained systematic exchanges of communication with the independent auditor and no significant data or information which required indication in this report was identified;
- learned about and monitored the adequacy of the Company's organisational structure, also through obtaining information from the managers of the relative company structures and, to that end, has no particular observations to make;
- determined that there were no appointments for services that could compromise the independence of the auditing firm Deloitte & Touche S.p.A., assigned to perform the independent auditing of the accounts and certify the financial statements; the same auditing firm was also appointed to examine the separate accounts (unbundling) of the Integrated Information System (IIS) established as part of the Company pursuant to Decree Law 105 of 8 July 2010, converted with amendments by Law 129 of 13 August 2010, and of the Italian Central Stockholding Entity (OCSIT) attributed to the Company pursuant to Legislative Decree 249 of 31 December 2012;
- relative to implementation of the regulations regarding corporate liability, note that the Oversight Committee, during 2016, monitored application of the Model and Code of Ethics by the company structures which monitor processes at risk for the commission of crimes, to guarantee observance and application of the organisational procedures and safeguards; the Board of Statutory Auditors, also during the periodic exchanges with the Oversight Committee, did not receive any notifications of particular relevance from the latter;
- in 2016, in addition to electricity supply activities for the protected market, additional Company activities also continued, including those relative to OCSIT and the IIS. The Board of Statutory Auditors notes that the report on operations contains an exhaustive description of all the activities of Acquirente Unico S.p.A., including those of OCSIT and the IIS. In line with that established in the Ministry of Economic Development (MISE) Official Guidelines for OCSIT and in Annex B to resolution ARG/com 201/2010, with regards to the IIS, the Company informed the Ministry of Economic Development, for OCSIT and the Authority for Electricity, Gas and Water Systems, of its estimate of costs

for the year 2017, by the deadline of 30 November 2016;

- during 2016, the Board of Statutory Auditors issued the following favourable opinions as requested and in line with its responsibilities:
 - on 16 March 2016, in regards to the policy adopted by the Company relative to fees paid to Directors with powers, also in terms of the achievement of objectives assigned to Directors with reference to the variable portion, pursuant to article 4 of Ministry of Economy and Finance Decree 166/14; consequently, it deemed the process of determining the achievement of the objectives in line with said policy, as indicated in the report on fees paid to Directors with powers pursuant to Article 23 bis, paragraph 3 of Decree Law 201 of 6 December 2011, converted, with amendments, to Law 214 of 22 December 2011, as subsequently amended by article 4 of Ministry of Economy and Finance Decree 166 of 24 December 2013.
 - on 4 April 2016, in the context of its report to the financial statements at 31/12/2015, with regards to the proposal of the Directors for distribution of profits and approval of said financial statements.
 - on 16 March and 14 April 2016, in regards to determining objectives for 2016 associated with the variable portion of the fees paid pursuant to article 2389, third paragraph of the Civil Code to directors with proxies for the Company, appointed by the Board of Directors on 23 October 2015, following that indicated by the Shareholder at the Shareholders' Meeting on 22 October 2015.
 - On 28 November 2016, in regards to the extension of the appointment given to Deloitte & Touche S.p.A. for independent auditing of the accounts for the time strictly necessary to appoint the entity appointed to carry out independent auditing for the next three-year period. To that end, we note that the current appointment of independent auditor Deloitte & Touche S.p.A. was set to expire with the approval of the previous financial statements at 31 December 2015, but that the tender issued by the parent company GSE S.p.A. for the new appointment was unable to be completed due to a legal case brought by one of the subjects participating in the tender; in this situation, in order to ensure continuity of the accounting controls and regular auditing of the annual financial statements, the administrative body and the Shareholders' Meeting, with a favourable opinion expressed by the Board of Statutory Auditors - each in regards to their own responsibilities - decided to extend the appointment given to Deloitte & Touche S.p.A. for the time necessary to perform auditing relative to financial year 2016.
- During these supervisory activities, as described above, no additional significant events were identified such as to require mention in this report.
- During 2016 and until the date this report was issued, no complaints were received pursuant to article 2408 of the Civil Code.
- The Board of Statutory Auditors therefore examined the draft financial statements for the Company at 31/12/2016, prepared by the Directors pursuant to the law and communicated by them to the Board of Statutory Auditors, together with the detailed schedules and annexes, at the Board of Directors meeting on 15 March 2017.

The accounting document in question, prepared in compliance with the provisions of Article 2423 and subsequent of the Civil Code, also as amended by Legislative Decree

139/2015, shows profits of € 141,607.

Below we provide a summary of the balance sheet and income statement.

BALANCE SHEET

ASSETS

<i>Amounts shown in euro</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Unpaid share capital due from shareholders	-	-
Fixed assets	301,833,580	189,421,588
Current assets	814,205,663	760,415,871
Accruals and deferrals	122,889	139,033
TOTAL ASSETS	1,116,162,132	949,976,492

SHAREHOLDERS' EQUITY AND LIABILITIES

<i>Amounts shown in euro</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Shareholders' equity		
I Capital	7,500,000	7,500,000
IV Legal reserve	1,109,411	1,099,581
VII Other reserves (extraordinary reserve)	-	124,686
IX Profit (loss) for the year	141,807	196,593
Total shareholders' equity	8,751,018	8,920,860
Provisions for risks and charges	1,473,472	1,420,105
Employee severance indemnity	558,436	642,539
Payables	1,105,366,882	938,983,703
Accruals and deferrals	12,324	9,285
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,116,162,132	949,976,492

INCOME STATEMENT

<i>Amounts shown in euro</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Production value	3,754,906,390	4,392,737,626
Production costs	3,754,565,620	4,392,488,632
Difference between value and cost of production	340,770	248,994
Financial income and expense	(19,477)	56,592
Income before taxes	321,293	305,586
Income taxes	179,686	108,993
PROFIT FOR THE YEAR	141,607	196,593

With regards to the examination of the 2016 annual financial statements, we report the following:

- as the Board of Statutory Auditors is not responsible for independent auditing of the accounts, it monitored the general structure given to these and its general compliance with the law in regards to its content and structure and, to that end, has no special observations to make;
- the Board of Statutory Auditors verified observance with the norms under the law

relative to preparation of the report on operations and, to that end has no special observations to make.

- In its report on the financial statements, issued on 4 April 2017, the independent auditing firm did not identify any findings or make requests for information and stated that, in its judgement, the annual financial statements *“provide a true and accurate representation of the equity and financial result of Acquirente Unico S.p.A. at 31 December 2016, and of its economic results and cashflows for the year ending on said date, in compliance with the Italian regulations which govern preparation criteria”*; it also stated that the report on operations *“is consistent with the annual financial statements of Acquirente Unico S.p.A. at 31 December 2016”*.
- The Board of Statutory Auditors expresses its opinion supporting the directors' proposal to distribute profits of € 134,527 (the net distributable profits) to the shareholder.
- to the best of its knowledge, the Directors, in preparing the financial statements, did not derogate from the norms of the law pursuant to Article 2423, paragraph 4 of the Civil Code;
- no atypical or unusual transactions were identified and the Directors, in the report on operations and in the explanatory notes, illustrated the financial relations, commercial exchanges and services provided between the companies of the Group;
- the Board of Statutory Auditors verified the correspondence of the financial statements with the events and information which it was made aware of as a consequence of carrying out its responsibilities and has no observations to that end.

Also considering the results of the activities performed by the independent auditing firm, illustrated in the auditing firm's report, the Board of Statutory Auditors expresses its opinion in favour of approving the financial statements for the year ending on 31/12/2016, in compliance with that provided for by the Board of Directors.

Finally, we note that with the approval of the financial statements in question the three-year appointment of the undersigned Board of Statutory Auditors will expire. We thank the Shareholder for the trust placed in us and recall that the Shareholders' Meeting will also need to resolve on the issue of appointing the Board of Statutory Auditors for the three year period from 2017 to 2019.

Rome, 4 April 2017

The Chairman
Dr. PAOLA FERRONI

Statutory Auditor
Dr. LINDA OTTAVIANO

Statutory Auditor
Dr. CIRO PIERO CORNELLI



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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

**To the Shareholder of
Acquirente Unico S.p.A.**

Report on the Financial Statements

We have audited the accompanying financial statements of Acquirente Unico S.p.A. ("Company"), which comprise the balance sheet as at December 31, 2016, the income statement and statement of cash flows for the year then ended and the explanatory notes.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with the Italian law governing financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Acquirente Unico S.p.A. as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with the Italian law governing financial statements.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations with the financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of the Company, with the financial statements of Acquirente Unico S.p.A, as at December 31, 2016. In our opinion the report on operations is consistent with the financial statements of Acquirente Unico S.p.A as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 4, 2017

This report has been translated into the English language solely for the convenience of international readers.

ATTESTATION OF THE ANNUAL FINANCIAL STATEMENTS PURSUANT TO ARTICLE 26 OF THE BYLAWS

1. *We the undersigned, Andrea Pèruzy, as Chairman and Chief Executive Officer and Paolo Lisi, as Financial Reporting Manager of Acquirente Unico S.p.A.,*

ATTEST

- *the adequacy in relation to the company's characteristics and*
- *the effective application*

of the administrative and accounting procedures used to prepare the annual financial statements at 31 December 2016.

2. To that end, we note that this attestation was prepared on the basis of the activities carried out by the Financial Reporting Manager during the year, as well as a system of attestations issued by the managers of the various organisational units and, in reference to the processes carried out, on the basis of service contracts with the parent company GSE, by the managers of the related departments within the parent company. More specifically:

- the Energy Operations Department, Consumers and Conciliation Department, OCSIT Department, Integrated Information System Departments and Strategic Development and Communication Department, in relation to the processes placed under their responsibilities, attested with declarations signed by their respective managers that the data and information necessary to

prepare the 2016 annual financial statements and the relative report on operations were properly processed and represented;

- the Human Resources and General Services Department of the parent company, on the basis and within the limits of that established in the existing service contract and in relation to the processes placed under its responsibility, attested with a declaration signed by the respective manager that the data and information necessary to prepare the 2016 annual financial statements were properly processed and represented;
- the IT Systems Department of Acquirente Unico S.p.A. and the IT Systems Department of GSE, in relation to the processes placed under their responsibilities, attested with declarations signed by their respective managers the adequacy of the IT systems to monitor the events which impact the economic, equity and financial situation of Acquirente Unico S.p.A., and more specifically with regards to:
 - the proper functioning of the infrastructure and applications functional to the acquisition, processing and representation of administrative/accounting information and information that in any case serves to feed the accounting system and therefore produced an effect on the disclosures in the 2016 annual financial statements;
 - the existence of adequate procedures suitable to guarantee the protection of the company's informational assets.

In 2016, the GSE Audit Office, as part of planned activities, carried out audits on various Acquirente Unico administrative and accounting processes which included the financial statement preparation process. Following the audit of the financial statement preparation process, the final report for which was issued in September 2016 (considering the economic and financial/equity data relative to the previous year) indicated the following conclusions:

- the process used to prepare the financial statements is governed by a specific internal procedure which, among other things, guarantees reconstruction of the individual phases of the process itself, through filed documentation;
- activities are adequately segregated within the organisation;

- the authorisation powers and proxies system is adequate with respect to the activities necessary to carry out the process.

Relative to the attribution of tax charges accruing for 2016, the Company's tax expert issued a specific attestation regarding the accuracy of the relative calculations.

3. We also attest that the 2016 annual financial statements, which show net profit of € 141,607 and shareholders' equity of € 8,751,018:

- a) are consistent with the underlying accounting books and records;*
- b) are prepared in compliance with the rules of the Civil Code, as well as the accounting standards prepared by the OIC (Italian Accounting Body) and, to the best of our knowledge, are suitable to provide a true and fair view of the financial position and results of operation of Acquirente Unico S.p.A.*

4. Finally, we attest that the report on operations contains a reliable analysis of the operating and financial performance and situation of Acquirente Unico S.p.A., together with a description of the main risks and uncertainties to which the Company is exposed.

Rome, Italy, 23 March 2017

Chairman and Chief Executive Officer

Financial Reporting Manager